

# Legislative Audit Division

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State of Montana



Report to the Legislature

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June 1999

## Performance Audit

### Lodging Facility Use Tax (Bed Tax)

This report makes recommendations related to the bed tax.  
Recommendations were made to the following entities:

#### Department of Commerce

- Travel Montana should improve program success measurements and controls over bed tax proceeds.

#### Department of Revenue

- Improve lodging facility registration and bed tax collection and distribution procedures.

#### Tourism Research Program

- Establish the role, scope and guidelines for the tourism research program.

This report also recommends the 2001 Legislature consider if bed tax funds should continue to be statutorily appropriated and if proceeds can be used to pay administrative costs.

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Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, statistics, economics, computer science, communications, and engineering.

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# **Legislative Audit Division**

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## **Performance Audit**

### **Lodging Facility Use Tax (Bed Tax)**

**Department of Commerce  
Department of Revenue  
Tourism Research Program**

Members of the audit staff involved in this audit were Joe Murray, Kris Wilkinson, and Mike Wingard.



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## **Appointed and Administrative Officials**

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### **Department of Revenue**

Mary Bryson, Director  
Don Hoffman, District 1 Leader  
Gene Walborn, Central Region 7 Leader

### **Department of Commerce**

Dr. Peter S. Blouke, Director  
Matthew T. Cohn, Director, Travel Montana

### **Tourism Advisory Council**

Carl Kochman, Chair  
Betsy Baumgart, Vice Chair

### **Institute for Tourism and Recreation Research**

Perry Brown, Dean, School of Forestry, University of Montana  
Norma Nickerson, Director

# Report Summary

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## Introduction

The Legislative Audit Committee requested a performance audit of the Lodging Facility Use Tax, also known as the bed tax. Specific areas discussed in this report include the Department of Revenue's process to collect and disburse the tax, controls over how the Department of Commerce uses tax proceeds for tourism promotional activities, and the process for prioritizing tourism-related research.

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## Background

The 1987 Legislature imposed a four percent Lodging Facility Use Tax (bed tax) on the price of overnight lodging. The bed tax was created as a statutory appropriation for tourism and film promotion in Montana. Lodging facility operators in Montana collect bed taxes from users of their facilities. Examples of facilities include hotels, motels, bed and breakfasts, dude ranches, resorts and campgrounds. Bed tax collections have increased each year since the tax was created in 1987. Collections were \$5 million in fiscal year 1988-89 compared to approximately \$10 million in fiscal year 1997-98. Bed tax funds are statutorily appropriated to the Montana Historical Society, the University System, the Department of Fish, Wildlife, and Parks, the Department of Commerce, and tourism regions and cities.

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## Department of Commerce

The Department of Revenue is responsible for collecting and distributing bed taxes to the appropriate entities on a quarterly basis. Responsibilities for the department include registering lodging facilities with the department, educating facilities regarding bed tax requirements, identifying delinquent accounts, verifying the accuracy of tax returns, and performing audits of facilities. In addition, it is responsible for maintaining information about bed tax collections and providing this information to the Department of Commerce as needed.

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## Montana Promotion Division

The Montana Promotion Division, also known as Travel Montana, is authorized 67.5 percent of bed tax proceeds for tourism and film promotion. Each year, Travel Montana develops annual marketing plans which provide an overview of the marketing and tourism and film development activities it will undertake. Travel Montana programs include the Film Office, Information Services, Tourism Development, Marketing, and Operations.

## Report Summary

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### Montana Tourism and Travel Statistics

The Institute for Tourism and Recreation Research (ITRR) is statutorily appropriated 2.5 percent of bed tax funds to research state tourism activities. According to ITRR, there are frequently overlapping reasons why people visit the state. For example, a visitor who indicates they are in Montana for vacation may also be in the state to visit family and friends or on business. Between calendar years 1991 and 1997, the number of nonresident visitors to the state increased 19 percent from 7.4 million to 8.8 million visitors. ITRR estimated that in calendar year 1997 the 8.8 million visitors spent \$1.44 billion on goods and services in Montana.

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### Bed Tax Collections and Distributions

The first part of the bed tax process is the collection and distribution of the tax by the Department of Revenue (DOR). We identified several issues and noted some areas where the collection and distribution processes could be improved.

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### Database Comparisons Raise Questions About Collections

To help evaluate DOR bed tax collections, we compared ITRR information to DOR information on total bed tax collections for residents and nonresidents for calendar years 1993 through 1997. ITRR collects direct lodging information from nonresident travelers who visited Montana and projects this information to all nonresident visitations. We noted total bed tax collections (resident and nonresident) by the department were similar to what only nonresidents were projected to have paid for the same time period. Either DOR is not collecting all the bed taxes possible, or there are data completeness questions regarding the ITRR information or some combination of both.

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### Several Lodging Facilities Not Registered With the DOR

We compared information from DOR's database with information from Department of Public Health and Human Services (DPHHS) and Travel Montana for Missoula and Yellowstone counties. Our findings suggest there may be a number of lodging facilities not registered with the DOR. In the two counties reviewed, our comparison with DPHHS information found 42 lodging facilities that have current health licenses but are not registered with the DOR. We also identified 45 facilities in Travel Montana's travel planner who were not registered with the DOR.

The DOR needs to improve its control environment over the bed tax collection process. Improvements should include establishing a process

for reasonableness testing of DOR database information, requiring facilities to provide documentation before their registration is canceled, and ensuring all lodging facilities have a separate registration number.

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### **Audits of Lodging Facilities are Not a Primary Priority**

Department officials indicated the most effective process to ensure lodging facilities are accurately reporting information is to periodically audit facilities. DOR officials indicated audits of lodging facilities are not a primary priority for the department and are generally done only if concerns exist with other types of taxes.

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### **Management Information Needs to be Improved**

We found the department is not compiling sufficient information to determine if facilities are reporting the correct amount of tax or to help identify potential problems or patterns with collections. Consequently, the department cannot effectively determine which facilities should be given a higher priority for audit. The department could improve and use management information to help them more effectively administer bed tax collections.

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### **Department Uses Limited Resources for Bed Tax Collections**

One of the underlying causes for the control weaknesses identified could be the level of resources committed by the department to the bed tax program. Currently DOR has one audit technician assigned to administer the bed tax. DOR's level of resources utilized for assuring facility compliance with bed tax requirements may be affecting the other agencies that use bed tax funds. Specifically, this means the tourism activities of the Department of Commerce, Department of Fish, Wildlife and Parks, the Montana Historical Society and the fifteen tourism entities could be increased if DOR collects more of the bed taxes due. The DOR should formally analyze the resources needed to administer bed tax collection and disbursements.

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### **Distribution of Bed Tax Funds**

State law charges the Department of Commerce with distributing bed tax funds to tourism regions and qualifying cities. By rule, the DOR is to provide Travel Montana with quarterly reports showing the amount of bed taxes collected in cities, counties, and tourism regions. We found DOR's reports regarding funds available for distribution to the regions could be more useful and accurate. We noted between fiscal years 1992-93 through 1997-98 just under \$177,000 that should have been

## Report Summary

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transferred to the tourism regions and cities has not been distributed. The system DOR uses to develop information provided to Travel Montana regarding bed tax collections and disbursements needs to be jointly examined by the DOR and Travel Montana to improve the accuracy of the information.

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### **Travel Montana Operations**

During our audit, we reviewed Travel Montana operations. Areas reviewed included the development and use of goals and objectives for Travel Montana's programs, related outcome measurements, and policies and procedures. We also reviewed Travel Montana's management of its financial resources.

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### **Does Travel Montana Have Measurable Objectives to Determine the Success of Its Programs?**

Our review showed many of Travel Montana's programs and promotional components have goals, objectives, and performance measurements which help ensure Travel Montana is meeting its mission. However, audit work identified differences in Travel Montana's development of specific and measurable objectives for some of its programs. We found the Operations Program, the Publicity Program and the Group and Overseas Travel Program do not have specific and measurable objectives for some promotional activities. In fiscal year 1997-98, Travel Montana spent approximately \$1.4 million of bed tax funds in programs where outcome measurements could be improved. Travel Montana needs to expand development of specific and measurable objectives and outcome measurements to all programs.

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### **Financial Controls Could Be Improved**

The Department of Commerce charges its Management Services Division with ensuring controls over financial resources are in place. Management Services personnel delegate many of these responsibilities to staff within the department's programs. These responsibilities include recording financial information, developing program budgets, and appropriately contracting for goods and services. Travel Montana staff are responsible for ensuring bed tax funds are effectively used. We identified areas where improvements could be made in how Travel Montana manages its funds. Areas where improvements should be made include developing procedures to ensure they follow state procurement policies when obtaining services and educating Travel Montana staff on financial policies and procedures applicable to their division.

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### **Bed Tax Funds Incorrectly Withheld from Tourism Regions**

State law requires Travel Montana to make distributions to tourism regions based on actual bed tax collections in the region. A change in fund distribution was approved by the Tourism Advisory Council (TAC) with the full knowledge of the Department Director, and the regions. We found in fiscal year 1993-94 Travel Montana staff began incorrectly withholding five percent of each region's distribution of tax collections as part of a solution to address concerns that three of the regions were/are not able to effectively advertise their tourist attractions with the small amount of bed tax funds distributed to them. Travel Montana matches the amount of funds withheld from the regions with its own bed tax funds, then redistributes these funds to regions with smaller levels of bed tax revenues. More than \$341,000 has been incorrectly withheld from the regions and redistributed.

At least two alternatives exist to address concerns with distribution of regional funding. First, the TAC has statutory authority to modify the regional boundaries. As another alternative, Travel Montana, the TAC and the tourism regions can seek legislation to amend the current distribution formula or obtain authority to use flexibility in making regional distributions.

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### **Travel Montana Funds the International Trade Office**

Section 15-65-121, MCA, states bed tax funds are to be used for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials. We found Travel Montana funded about fifty-five percent of International Trade Office (ITO) operations in fiscal years 1996-97 and 1997-98. The International Trade Program has not made tourism promotion its priority although the majority of its funding comes from bed taxes which statutorily must be used for tourism promotion. It appears only 10 percent of ITO activities were related to tourism promotion. The effect of this diversion of bed tax funds to ITO is other Travel Montana programs may not be fully funded. The Department of Commerce should seek alternative funding for the International Trade Offices.

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### **Tourism Research**

The Institute for Tourism and Recreation Research (ITRR) is statutorily appropriated two-and-a-half percent of bed tax collections to maintain a travel research program. State law also requires the Tourism Advisory Council (TAC) to direct ITRR's tourism research activities funded by

## Report Summary

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the bed tax and approve all travel research projects. During the audit, we noted the role of the tourism research program could be better defined. We noted philosophical differences between the TAC and ITRR have contributed to a lack of effectiveness in the process to prioritize tourism research projects. These differences are in the areas of research timing, methodologies employed, and subject matter. We also noted there is a lack of comprehensive communication and coordination between the TAC and the ITRR to address this issue. The TAC and ITRR should establish a mutually agreed upon role and scope for the travel research program and also establish guidelines for the selection of research projects.

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### **Should Bed Tax Funds be Statutorily Appropriated?**

In 1997, laws relating to statutory appropriations were amended to include specific guidelines for statutory appropriations. Based on our review, we determined the statutory appropriation of bed tax funds does not appear consistent with several of these guidelines. In addition, section 17-1-508(4), MCA, indicates a statutory appropriation from a continuing and reliable source of revenue may not be used to fund administrative costs. The law defines administrative costs as: personal services; operating expenses such as travel, supplies, and communication costs; and, capital expenses such as equipment. Administrative expenditures for Travel Montana were approximately \$6.2 million, \$6.3 million and \$7 million respectively for fiscal years 1995-96, 1996-97 and 1997-98. The 2001 Legislature should consider whether bed tax funds should continue to be statutorily appropriated and clarify whether recipients of these funds may use them to pay administrative costs.



# Chapter I - Introduction

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## Introduction

The Legislative Audit Committee requested a performance audit of the Lodging Facility Use Tax, also known as the bed tax. Specific areas discussed include the Department of Revenue's process to collect and disburse the tax, controls over how the Department of Commerce uses tax proceeds for tourism promotional activities, and the process for prioritizing tourism-related research.

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## Audit Objectives

The objectives of this audit were to:

1. Provide the legislature with information about the collection and expenditure of Montana bed taxes.
2. Evaluate management controls over the Montana Promotion Division at the Department of Commerce to determine if resources are used efficiently. This included reviewing how efficiently they use financial resources and measure program outcomes.
3. Examine the use of statutory appropriations for Montana Promotion Division operations.
4. Review the tourism research function and determine if the process for directing and approving research projects could be improved.
5. Evaluate the effectiveness of the Department of Revenue's process to collect bed taxes from overnight lodging facilities and disburse funds to qualifying entities.

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## Audit Scope and Methodology

This audit was conducted in accordance with government auditing standards for performance audits. During preliminary audit work we reviewed state laws and administrative rules related to the bed tax. We also gathered information on how bed taxes are collected and used by entities that receive a portion of tax proceeds. Preliminary data was obtained from the Department of Revenue, Department of Commerce, and the state's six tourism regions and nine convention and visitor bureaus. We also gathered information from tax recipients such as the Montana Historical Society, the Institute for Tourism and Recreation Research at the University of Montana, and the Department of Fish, Wildlife, and Parks. We attended three meetings of the Bed Tax Futures Task Force and one meeting of the Tourism Advisory Council. We reviewed recommendations the task force made to the Governor for

## Chapter I - Introduction

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potential changes to the bed tax and interviewed members of the Tourism Advisory Council.

The Bed Tax Futures Task Force was created in May 1998 by the Tourism Advisory Council to review how the bed tax has been used since its inception. The task force was comprised of 16 individuals including legislators, Tourism Advisory Council members, city and county government officials, historical preservation representatives, the lodging industry representatives, and Native Americans. The task force studied how the tax is currently used and made recommendations for changes or improvements. The task force presented a report of its findings to the Governor in November 1998. Two bills were introduced in the 1999 Legislature based on recommendations from the task force. HB 286 was an act to revise the allocation and use of bed tax funds and HB 287 was an act to submit to the electorate an expansion of facilities that must collect the tax. Both bills were tabled in committee.

We also followed other legislation introduced in the 1999 Legislature related to the bed tax. One bill which passed related to signs for visitor information centers. Another bill which passed requires state agencies to return bed taxes they pay to the fund they were paid from instead of depositing the funds into the General Fund.

We set the scope of our audit based on our preliminary review. Audit work focused on the activities of the Montana Promotion Division at the Department of Commerce, the university tourism research program funded by the bed tax, and the Department of Revenue's process to collect and disburse bed taxes. The following sections describe audit work completed.

### Montana Promotion Division

The Montana Promotion Division (MPD) at the Department of Commerce, also known as Travel Montana, is responsible for tourism promotion activities. Audit testing at MPD included:

- Reviewing Montana's statewide strategic plan for travel and tourism for calendar years 1998 through 2002.
- Reviewing management controls over MPD operations.

## Chapter I - Introduction

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- Assessing whether the division has goals and objectives established for its programs and effective ways to measure the success of its programs.
- Evaluating MPD procedures to manage its financial resources.
- Reviewing the two grant programs administered by MPD.
- Evaluating MPD's process to distribute funds to the six tourism regions and nine qualifying cities as required by law.
- Determining if MPD's statutorily appropriated bed tax funding complies with state law for statutory appropriations.

### Tourism Research

According to section 2-15-1816, MCA, the Tourism Advisory Council (TAC) directs and approves tourism research. The Institute for Tourism and Recreation Research (ITRR) at the University of Montana conducts research related to tourism. Audit testing related to tourism research included:

- Examining a variety of reports issued by ITRR to determine the types of projects conducted.
- Reviewing the research process and determining how projects are selected for completion.
- Interviewing ITRR officials and members of the TAC about their process to establish priorities and approve research projects.

### Department of Revenue

The Department of Revenue is responsible for collecting bed taxes and disbursing them to entities identified in section 15-65-121, MCA. Audit testing included:

- Interviewing Department of Revenue staff and management regarding procedures to collect bed taxes from lodging facilities and disburse the funds to qualifying entities.
- Evaluating the department's procedures to track lodging facilities operating in the state by comparing data from the Department of Revenue to information from the Department of Commerce and the Department of Public Health and Human Services.
- Reviewing a sample of tax returns submitted by lodging facilities during the third quarter of calendar year 1998.
- Obtaining data regarding average occupancy and room rates for Montana's lodging industry and estimating potential taxes due from facilities not registered with the department.

## Chapter I - Introduction

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- Interviewing officials from other states to determine their procedures for collecting bed taxes and comparing their procedures to Montana's process.

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### Compliance

As part of the audit, we reviewed compliance with state laws and administrative rules related to the bed tax. Some instances of non-compliance were identified with the Department of Revenue's process to register lodging facilities. This issue is discussed in Chapter IV. We found MPD was not in compliance with laws relating to its contracting procedures and expenditure of some funds. These issues are addressed in Chapter V. We also found the statutory appropriation of the bed tax does not meet all the guidelines for this type of appropriation. This issue is discussed further in Chapter VII.

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### Management Memorandums

During the course of our review, we discussed two issues with the department. These issues are not the subject of recommendations in this report but were designated as management memorandums. One issue related to the need to change a department policy allowing travel reimbursements for department employees above the amounts allowed in state law.

Another memorandum addressed developing policies outlining procedures to ensure division staff consistently record expenditures for media tours. Travel Montana cannot identify the total amount spent providing media tours because the costs are recorded in different expenditure categories.

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### Report Organization

The remainder of this report is organized as follows:

- Chapter II - provides background information regarding bed tax collections and distributions and the entities involved in collecting the tax and promoting tourism in Montana.
- Chapter III - provides information on tourism in Montana.
- Chapter IV - discusses the Department of Revenue's process to collect bed taxes and distribute the funds to qualifying entities.

## **Chapter I - Introduction**

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- Chapter V - provides information on management controls over Travel Montana operations, including how effectively they use financial resources and measure program outcomes.
- Chapter VI - discusses our review of how tourism research projects are approved and prioritized by ITRR and the Tourism Advisory Council.
- Chapter VII - discusses our review of the statutory appropriation process for bed tax funds.



## Chapter II - Background

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### **Introduction**

This chapter provides background information related to the bed tax. Our discussion includes historical information on its creation, collection and disbursement.

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### **Lodging Facility Use Tax**

The 1987 Legislature imposed a four percent Lodging Facility Use Tax (bed tax) on the price of overnight lodging. The bed tax was created as a statutory appropriation for tourism and film promotion in Montana.

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### **Who Pays and Collects the Tax?**

Lodging facility operators in Montana collect bed taxes from users of their facilities. Facilities include hotels, motels, bed and breakfasts, dude ranches, resorts and campgrounds. Section 15-65-112, MCA, requires facility operators to submit a report on gross lodging receipts and payment of taxes due to the Department of Revenue on or before the last day of the month following the end of each quarter of the calendar year (March 31, June 30, September 30, and December 31). If a facility does not file a report or make payment as required, section 15-65-115, MCA, authorizes the Department of Revenue to assess a ten percent penalty of the total tax which should have been collected during that quarter. Department of Revenue personnel may waive the penalty if the facility can show good cause for not filing a report or paying the tax.

### **Some Facilities are Exempt From Collecting the Tax**

Section 42.14.102, ARM, sets forth certain conditions which exempt some facilities from collecting and paying the bed tax. The following table lists the criteria used to determine whether the tax is collected.

## Chapter II - Background

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**Table 1**  
**Bed Tax Collection Exemptions**

<u>Type of Facility</u>	<u>Exemption Criteria</u>
Hotel, Motel, Public Lodging	- Facility charges sixty percent or less of average daily accommodation charge (\$35 in 1999).
House, Bed & Breakfast	- Rented for 30 consecutive days.
Resort, Condominium Inn, Dude Ranch, Guest Ranch	- Rented for 30 consecutive days.
Campgrounds	- Operated by nonprofit or religious organization and rented primarily to youth under 18 years old. - Rented for 30 consecutive days.

**Source:**      **Compiled by the Legislative Audit Division from Administrative Rules of Montana.**

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### **Bed Tax Collections and Disbursements**

Bed tax collections have increased each year since the tax was created in 1987. Collections were approximately \$5 million in fiscal year 1988-89 compared to approximately \$10 million in fiscal year 1997-98. This is an increase of 100 percent. According to tourism officials, increases can be attributed to a number of factors including:

an increase in visitors to the state  
an increase in the number of lodging facilities in the state  
higher costs for lodging facilities

Bed tax funds are statutorily appropriated. A statutory appropriation is an appropriation made by law that authorizes spending by a state agency without the need for a biennial legislative appropriation or budget amendment. Section 15-65-121, MCA, defines the entities which receive bed tax proceeds. These are outlined in Table 2.

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### **Legislative Changes to Bed Tax Since its Creation**

Several changes have occurred to the bed tax since it was created. The following lists these changes:

The 1992 Special Session transferred \$220,000 in bed tax funds to the state's General Fund. In addition, a surtax was imposed on taxes collected in the state.



## Chapter II - Background

Effective July 1, 1993, six-and-a-half percent of bed tax proceeds were appropriated to the Department of Fish, Wildlife and Parks for maintenance of state parks.

The 1995 Legislature changed the allocation to the Department of Commerce from 75 percent of the remaining tax to 67.5 percent of the total tax. The allocation to tourism regions and qualifying cities was changed from 25 percent of the remaining tax to 22.5 percent of the total tax.

The 1997 Legislature authorized \$400,000 be transferred each year to the Montana Heritage Preservation and Development Account (Heritage Account). This transfer became effective on May 1, 1997 and ends July 1, 2001. The legislature also authorized a one-time transfer of \$45,000 to the Fort Peck Interpretive Center.

**Table 2**  
**How Bed Tax Funds are Distributed and Used**

<u>Entity</u>	<u>Percent/Dollars Received</u>	<u>How Funds Are Used</u>
Montana Historical Society	1.0 percent	Install and maintain roadside historical signs and historic sites.
University System	2.5 percent	Establish and maintain travel research program.
Dept. of Fish, Wildlife & Parks	6.5 percent	Maintain state park facilities.
Dept. of Commerce	67.5 percent	Tourism and film promotion.
Regions and Cities	22.5 percent	Tourism promotion and development.
MT Heritage Account	\$400,000/yr	Operation and maintenance of Virginia and Nevada Cities

**Source:** Compiled by the Legislative Audit Division from MCAs.

### **Historical Collections and Disbursements**

Table 3 below provides historical information on bed tax collections and disbursements for fiscal years 1988-89 through 1997-98.

## Chapter II - Background

**Table 3**  
**Bed Tax Collections and Disbursements**  
**(Fiscal Years 1988-89 through 1997-98)**

	<b>FY 88-89</b>	<b>FY 89-90</b>	<b>FY 90-91</b>	<b>FY 91-92</b>	<b>FY 92 - 93</b>
Taxes Collected	\$ 5,003,354	\$ 5,504,992	\$ 6,154,788	\$ 7,005,717	\$ 7,884,193
Surtax	N/A	N/A	N/A	N/A	\$ 391,676
Dept. of Revenue*	\$ 100,067	\$ 130,494	\$ 184,644	\$ 210,172	\$ 236,526
Historical Society	\$ 50,034	\$ 55,050	\$ 61,548	\$ 70,057	\$ 78,842
Dept. Of FWP	N/A	N/A	N/A	N/A	N/A
University/ITRR	\$ 125,084	\$ 137,625	\$ 153,870	\$ 175,143	\$ 197,105
Dept. of Commerce	\$ 3,546,127	\$ 3,886,368	\$ 4,316,045	\$ 4,912,759	\$ 5,235,003
Regions	\$ 831,953	\$ 911,490	\$ 1,009,345	\$ 1,153,702	\$ 1,237,906
Cities	\$ 350,090	\$ 383,966	\$ 429,337	\$ 483,884	\$ 507,106
MT Heritage Account	N/A	N/A	N/A	N/A	N/A

	<b>FY 93 -94</b>	<b>FY 94 -95</b>	<b>FY 95-96</b>	<b>FY 96 -97</b>	<b>FY 97-98</b>
Taxes Collected	\$ 8,205,971	\$ 8,534,402	\$ 9,100,664	\$ 9,397,094	\$9,964,056
Surtax	\$ 358,660	N/A	N/A	N/A	N/A
Dept. of Revenue*	\$ 246,179	\$ 256,032	\$ 273,020	\$ 281,913	\$ 298,922
Historical Society	\$ 76,011	\$ 82,784	\$ 88,276	\$ 91,152	\$ 92,651
Dept. of FWP	\$ 494,074	\$ 538,094	\$ 573,797	\$ 592,487	\$ 602,234
University/ITRR	\$ 190,028	\$ 206,959	\$ 220,691	\$ 227,880	\$ 231,628
Dept. of Commerce	\$ 5,131,074	\$ 5,587,900	\$ 5,958,660	\$ 6,152,747	\$ 6,253,965
Regions	\$ 1,224,790	\$ 1,334,712	\$ 1,434,100	\$ 1,493,045	\$ 1,539,558
Cities	\$ 485,156	\$ 527,922	\$ 552,120	\$ 557,871	\$ 545,098
MT Heritage Account	N/A	N/A	N/A	N/A	\$400,000

\* Includes Department of Revenue administrative costs and reimbursements for bed taxes paid by state government employees reimbursed to General Fund.

Note: These numbers are from Department of Revenue reports which do not tie to SBAS therefore this table differs from Table 5.

**Source: Compiled by the Legislative Audit Division from Department of Revenue records.**

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### Department of Revenue

Section 15-65-121, MCA, gives the responsibility for collecting and distributing bed taxes to the Department of Revenue. The Business Tax Section within the Compliance, Valuation, and Resolution Division collects a variety of taxes and fees which include withholding taxes, unemployment insurance taxes, cigarette taxes, telephone taxes, and bed taxes.

Responsibilities for the section related to bed tax collections include registering lodging facilities with the department, educating facilities regarding bed tax requirements, identifying delinquent accounts, verifying the accuracy of tax returns, and performing desk audits of facilities. In addition, the Business Tax Section is responsible for maintaining information about bed tax collections and providing this information to the Department of Commerce as needed.

Before distributing proceeds to other entities, the department deducts its costs for collecting and distributing the funds. Administrative costs to collect the tax in fiscal year 1995-96 were \$88,605. In fiscal year 1996-97 administrative costs were \$89,808 and \$103,235 for fiscal year 1997-98.

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### Tourism Promotion

There are several entities involved in promoting Montana as a tourist destination. This section discusses each entity and the role they play in tourism promotion. Entities discussed include the Tourism Advisory Council, tourism organizations, and the Montana Promotion Division. We also provide information regarding Montana's five-year strategic plan for travel and tourism in the state.

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### Five-Year Strategic Plan

A second statewide five-year strategic plan for the travel and tourism industry was completed in 1997. The plan covers the time period from 1998 through 2002. The plan coordinates the efforts of federal and state government agencies, nonprofit groups, and private sector businesses in their efforts to promote state tourism. It also identifies specific goals each entity must achieve to ensure Montana maintains a viable tourism industry. The plan involved input from the Montana Promotion Division, the state's regional tourism offices, state agencies, federal land and wildlife agencies, and various private sector businesses.

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### **Tourism Advisory Council**

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The Tourism Advisory Council (TAC) was created when the bed tax statutes were first enacted. Section 2-15-1816, MCA, requires the TAC be comprised of no fewer than 12 members from Montana's private sector travel industry, with representatives from each of Montana's six tourism regions and a representative from the Native American tribes. TAC members are appointed by the Governor and serve staggered three-year terms.

The TAC has several responsibilities related to how the bed tax funds are spent. They include:

- Approving budgets and tourism promotion projects for six tourism regions and nine convention and visitors bureaus.
- Advising the Department of Commerce relative to tourism promotion.
- Advising the Governor on matters related to Montana's travel industry.
- Prescribing allowable administrative expenses for which bed tax proceeds may be used by tourism regions and convention and visitors bureaus.
- Directing travel research produced by the university system.
- Approving all travel research projects prior to implementation.
- Encouraging tourism regions to promote tourist activities on Indian reservations.

### **Tourism Organizations**

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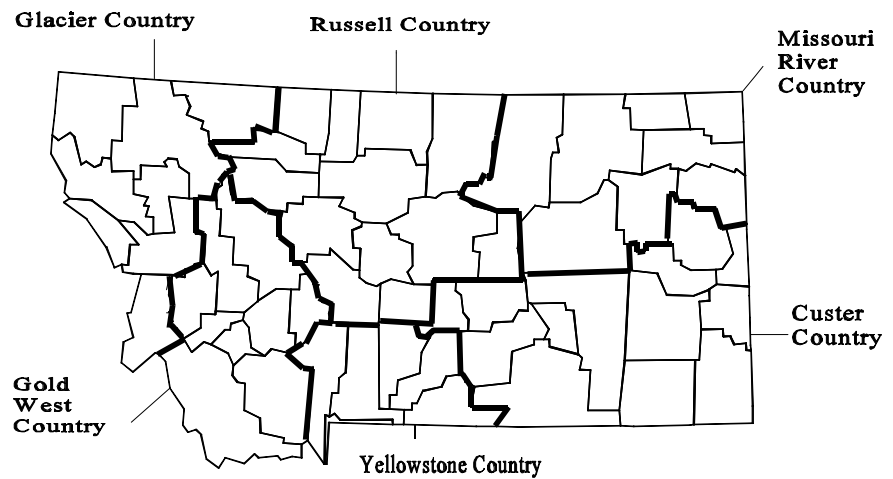
Twenty-two-and-a-half percent of bed tax collections are statutorily distributed to tourism regions and cities that market specific areas of the state. These tourism organizations develop annual marketing plans which identify strategies to increase visitation and visitor length of stay in a tourism region. The marketing plans must be approved by the TAC.

Tourism regions include Custer Country, Glacier Country, Gold West Country, Missouri River Country, Russell Country, and Yellowstone Country. The Convention and Visitor Bureaus (CVBs) are located in

## Chapter II - Background

Billings, Bozeman, Butte, Great Falls, Helena, Kalispell, Missoula, West Yellowstone, and Whitefish. Each local government entity has chosen the local Chamber of Commerce to be the funded CVB. The following map shows Montana's designated tourism regions.

**Table 4**  
**Designated Tourism Regions**



**Source:** Compiled by the Legislative Audit Division from Travel Montana Records.

### **Montana Promotion Division**

Each year, the Montana Promotion Division, also known as Travel Montana, develops a marketing plan which provides an overview of the marketing and tourism development activities the division will undertake. The plan discusses the general role of individual programs within the division, promotion activities for each program, and outlines program goals.

## **Chapter II - Background**

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Travel Montana consists of 26 FTE and five programs. Administrative staff for Travel Montana includes a division administrator (i.e. travel director), a consumer marketing manager, an administrative assistant, and an industry program specialist. One duty of the industry program specialist is to audit the tourism regions and CVBs to assure bed tax funds are used appropriately. Remaining management and staff are distributed among the division's five major programs. The following sections provide brief program descriptions.

### **Film Office**

The Film Office is responsible for promoting the state as a location for feature films, commercials, television, documentaries, music videos, and still photography. The program also provides information, scouting, and support services to the motion picture industry.

### **Information Services**

Information Services develops and implements new electronic systems for disseminating Montana travel information and long range planning for Travel Montana electronic marketing projects such as the division's Internet site. The division began to focus more attention on electronic marketing during the last few years because the Internet has become a popular tool for vacationers to obtain information on potential vacation destinations and to make travel plans.

One of the major responsibilities of Information Services is monitoring the call center contract. Travel Montana contracts with a private company to operate a call center for requests for travel information. The call center, which is located in Missoula, operates a phone answering service for several toll free numbers advertised by Travel Montana. Travel counselors at the call center answer questions from people interested in finding more information on travel opportunities in Montana.

### **Tourism Development**

The major responsibility of Tourism Development is to coordinate cooperative tourism efforts among federal and state agencies and private sector entities. Much of this effort is done through the Montana Tourism and Recreation Initiative which brings federal and state agencies together to discuss issues pertinent to Montana tourism. Tourism Development also focuses on community outreach programs

## Chapter II - Background

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such as rural tourism assessment and development, tourism education programs, and cultural tourism development and promotion.

### **Marketing**

Major responsibilities of the Marketing Program include:

- Making consumers aware of Montana's vacation opportunities and motivating them to consider the state as a prime tourist destination. The major tool for accomplishing this is advertising campaigns including joint ventures with private sector tourism entities and other state and Canadian travel offices. The program also advertises Montana as a destination for conventions and meetings.
- Developing consumer publications to provide information to potential visitors for vacation planning purposes. Information provided includes resorts, lodging facilities, and recreational activities during different seasons of the year.
- Developing publicity campaigns to promote Montana events, attractions or seasons to national and international media. Campaigns include tours to familiarize writers or broadcast media with Montana.
- Promoting the state overseas with emphasis in the United Kingdom, Germany, France, Belgium, the Netherlands, Japan, and Taiwan. Most program activities consist of working with tour operators, travel agencies, and the media.

### **Operations**

The Operations Program is responsible for administering Travel Montana funds. This includes budgeting, accounting, and purchasing duties. The program is also involved in processing consumer requests and mailing information and publications to those who have requested information on Montana tourism activities. The Operations Program also collects and compiles visitor counts from state tourist attractions.

### **Travel Montana Funding**

Travel Montana is authorized 67.5 percent of bed tax proceeds for tourism and film promotion. In addition, Travel Montana collects revenues from private tourism providers around the state who wish to participate in joint projects with the division. Table 5 illustrates division revenues and expenditures for fiscal years 1995-96 through 1997-98.

## Chapter II - Background

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**Table 5**  
**Travel Montana Revenues and Expenditures**  
**(Fiscal Years 1995-96 through 1997-98)**

	<b>Fiscal Year 1995-96</b>	<b>Fiscal Year 1996-97</b>	<b>Fiscal Year 1997-98</b>
<b>Revenues</b>			
MPD Bed Tax	\$ 6,075,437	\$ 6,250,262	\$ 6,317,502
Region/Cities Bed Tax	\$ 2,025,146	\$ 2,350,553	\$ 2,186,134
Private Donations	\$ 531,154	\$ 386,579	\$ 629,429
<b>Expenditures</b>			
Personal Services	\$ 725,659	\$ 819,707	\$ 875,866
Operating Expenses	\$ 5,452,710	\$ 5,382,462	\$ 6,105,158
Equipment & Intangible Assets	\$ 56,296	\$ 112,835	\$ 26,787
Local Assistance	\$ 2,053,526	\$ 2,350,553	\$ 2,186,134
Grants	\$ 495,000	\$ 445,000	\$ 267,332
Transfers to Regions	\$ 0	\$ 267,132	\$ 80,300
Principal & Interest	\$ 9,276	\$ 10,523	\$ 3,092

Note: These numbers are from SBAS, therefore they do not tie to numbers in Table 3.

**Source:**     **Compiled by the Legislative Audit Division from SBAS.**

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### Grant Programs

Travel Montana has created two grant programs: the Tourism Infrastructure Investment Program (TIIP) and the Community Tourism Assessment Program (CTAP). Funding allocations for the grant programs are determined by Travel Montana.

The TIIP program provides funding to organizations such as Indian tribes, cities and counties, or nonprofit groups. The grants are used for projects such as building new or remodeling existing tourism attractions. Minimum grant funding for a project is \$20,000 but can be higher



depending on funds Travel Montana has available. Successful applicants for TIIP grants must also provide a one dollar match for every two dollars received.

The CTAP program is a grant program administered as a cooperative effort by the Montana State University Extension Service, ITRR and Travel Montana. After deciding they want tourism to be part of their community, communities are eligible for CTAP funds to assist in the development of tourism-related infrastructure projects deemed a priority by the community. The maximum grant is \$20,000 and the number of grants is dependent on the amount of bed tax funds as determined by Travel Montana.

In fiscal year 1995-96, total funding for the two grant programs was \$495,000. In fiscal year 1996-97, funding totaled \$445,000 and \$267,322 in fiscal year 1997-98. Since a portion of the statutory appropriation of the bed tax went to Nevada and Virginia cities, Travel Montana's overall budget was reduced. As a result, Travel Montana chose to reduce grant program funding but maintain funding for their other operations.

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### **How Does Montana's Bed Tax Usage Compare With Other States?**

We contacted the states of Arizona, Idaho, Utah, and Wyoming to obtain information regarding bed tax collections and how the funds are used. We used this information to provide a comparison to Montana bed tax collections and fund use. Each state contacted collects revenue by assessing an accommodations tax on users of various overnight lodging facilities. We found variances in the tax rates, amount of revenue collected, and revenue distributions. The following table provides information for the states contacted.

## Chapter II - Background

**Table 6**  
**Accommodations Tax - State Comparisons**  
**(Fiscal Years 1994-95 through 1996-97)**

Amount Collected					
State	Tax Rate	FY 1994-95	FY 1995-96	FY 1996-97	Where Revenues Go
MT	4 percent	\$ 8,534,402	\$ 9,100,664	\$ 9,397,094	See Table 2.
ID	2 percent	\$ 3,683,016	\$ 3,854,120	\$ 3,728,314	All goes to the Dept. of Commerce for tourism promotion. Approximately forty-five percent provided to regional tourism agencies through grants.
WY	1-4 percent (varies by county)	\$ 3,779,797	\$ 2,562,129	\$ 2,314,369	One percent to general fund. Ninety-nine percent to cities & counties for tourism promotion.
AZ*	5.5 percent	\$ 71,499,890	\$ 80,083,630	\$ 85,768,870	Ninety-seven percent to general fund. Three percent to Dept. of Commerce tourism fund. Funds provided to cities and counties through a grant application process.
UT	3 percent (local lodging tax)	\$ 12,638,584	\$ 13,364,431	\$ 14,948,409	County which collects money for tourism promotion receives all funds.

\* Calendar Year

**Source:** Compiled by the Legislative Audit Division from Montana Code Annotated and information provided by other states.

As the table shows, all the states we contacted use a portion of revenues collected through accommodations taxes to promote state tourism.

Additionally, all the states contacted provide some revenue to regional tourism centers, cities, and counties for tourism promotion.

# Chapter III - Montana Tourism and Travel Statistics

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## Introduction

As part of our review of Montana tourism promotion, we examined various statistics related to tourism activities. According to Congressional Quarterly, tourism statistics need to be reviewed with caution because trips can combine business and pleasure or combine visiting family and visiting tourist destinations. In addition, tourist-related businesses such as restaurants and gift shops do not normally track whether customers are tourists or local customers.

Montana's Institute for Tourism and Recreation Research (ITRR) is statutorily charged with researching tourism activities in the state. Studies from ITRR at the University of Montana confirm the above limitations exist when compiling tourism statistics. In order to obtain more accurate information ITRR surveys nonresident travelers at major tourism points such as airports, rest areas, and border crossings. A major component of this process is to have travelers complete a questionnaire detailing where they traveled and how much money they spent in a number of areas such as lodging, food, and transportation.

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## Where Do Visitors Come From and What Brings Them to Montana?

To determine where visitors to Montana come from and the reasons they visit, we reviewed information compiled by ITRR identifying Montana visitor demographics. Information we reviewed was compiled for summer and winter travelers for calendar year 1997.

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## Summer Visitors

According to ITRR, there are several reasons travelers visit Montana during the summer months. The four primary reasons listed in order include:

- Vacation.
- Passing through the state.
- Visit family and friends.
- Business.

States with the highest percentage of total visitors to Montana include the states of Washington (13 percent), California (9 percent), and Idaho (6 percent). Visitors from other countries (including Canada) accounted for approximately eight percent of visitation.

## **Chapter III - Montana Tourism and Travel Statistics**

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According to ITRR, there are frequently overlapping reasons why people visit the state. For example, a visitor who indicates they are in Montana for vacation may also be in the state to visit family and friends or on business. Forty-nine percent of summer travelers came to Montana primarily for vacation while the remainder came for other purposes such as to visit family and friends, passing through to other destinations, or business. The primary attractions for summer visitors were Glacier and Yellowstone National Parks.

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### **Winter Visitors**

According to ITRR, the four major reasons travelers visit Montana during the winter are:

- Passing through the state.
- Business.
- Vacation.
- Visit family and friends.

States with the highest percentage of visitors to Montana include the states of Washington (15 percent), North Dakota (14 percent), Idaho (11 percent), and Wyoming (9 percent). Other countries (including Canada) accounted for 16 percent of winter visitation.

Again, ITRR noted there is overlap in the reasons people visit the state during the winter. ITRR information indicated 32 percent of winter travelers were just passing through the state while 20 percent came to Montana for vacation and winter activities. The remainder came for other reasons such as to visit family or business.

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### **Nonresident Visitation and Expenditures**

ITRR estimates growth in the travel industry over the last decade exceeded growth in most other industries in the state. Between calendar years 1991 and 1997, the number of nonresident visitors to the state increased 19 percent from 7.4 million to 8.8 million visitors. According to ITRR studies, the 8.8 million visitors in calendar year 1997 spent an estimated \$1.44 billion on goods and services in Montana.

The following tables provide information related to nonresident visitation in Montana. Tables 7 and 8 show nonresident visitor and expenditure trends between calendar years 1991 and 1997.

**Table 7**  
**Nonresident Visitation**  
(Calendar Years 1991 through 1997)

<u>Year</u>	Visitors (Millions)	Percentage <u>Change</u>
1991	7.4	----
1992	8.2	11.0 percent
1993	8.4	2.4 percent
1994	8.7	3.6 percent
1995	8.8	1.2 percent
1996	8.7	-1.1 percent
1997	8.8	1.2 percent

**Source:** Compiled by the Legislative Audit Division from ITRR studies.

**Table 8**  
**Nonresident Expenditures**  
(Calendar Years 1991 through 1997)

<u>Year</u>	Expenditures (Billions)	Percentage <u>Change</u>
1991	\$1.03	----
1992	\$1.16	12.6 percent
1993	\$1.22	5.2 percent
1994	\$1.30	6.6 percent
1995	\$1.35	3.8 percent
1996	\$1.37	1.5 percent
1997	\$1.44	5.1 percent

**Source:** Compiled by the Legislative Audit Division from ITRR studies.

As shown in Table 7, the majority of tourism growth in the last six years occurred between calendar years 1991 and 1992 with an eleven percent increase. Since then, visitation numbers have stabilized. Between calendar years 1995 and 1997 there was no increase in nonresident

### Chapter III - Montana Tourism and Travel Statistics

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visitation. In calendar year 1996 nonresident visitation declined slightly. The State of Montana's 1998-2002 strategic plan for travel and tourism attributes the major cause for this decline to decreases in visitation to Glacier and Yellowstone National Parks. The plan indicates there is a direct correlation between nonresident travel in Montana and national park visitation. Table 8 shows nonresident expenditures have continued to increase each year since calendar year 1991 in spite of small increases in visitor numbers.

Table 9 provides examples of where nonresident dollars were spent during calendar year 1997. The table shows the summer season has the highest total expenditures by visitors during the year. Nonresidents spend the most money on retail sales, gasoline, and lodging expenses.

**Table 9**  
**Nonresident Expenditures**  
**(Calendar Year 1997)**

<u>How Nonresident Dollars are Spent</u>		
<u>Category</u>	Dollars <u>Spent</u>	Percent of <u>Total</u>
Retail Sales	\$349 million	24.24 percent
Gasoline	\$320 million	22.23 percent
Lodging	\$232 million	16.12 percent
Restaurant/Bar	\$264 million	18.34 percent
Groceries/snacks	\$111 million	7.71 percent
Miscellaneous	\$ 91 million	6.32 percent
Auto rental	\$ 51 million	3.55 percent
Campground/RV Park	\$ 16 million	1.12 percent
Transportation Fares	\$ 7 million	0.49 percent

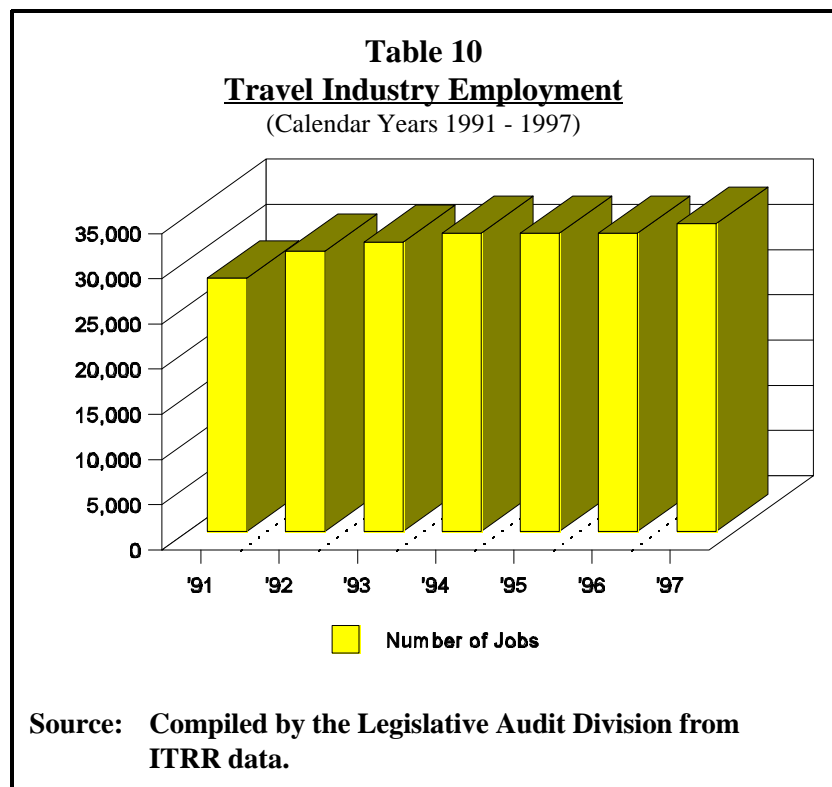
<u>Expenditures by Season</u>		
<u>Season</u>	Dollars <u>Spent</u>	Percent of <u>Total</u>
Summer	\$878 million	61 percent
Winter	\$201 million	14 percent
Spring	\$201 million	14 percent
Fall	\$158 million	11 percent

**Source:** Compiled by the Legislative Audit Division from ITRR studies.

## Chapter III - Montana Tourism and Travel Statistics

### What is the Economic Impact of Tourism in Montana?

Information from ITRR indicates there were approximately 32,000 jobs directly related to the travel industry during calendar year 1997 compared to 26,000 in calendar year 1991. This includes employment at lodging facilities, restaurants, gas stations, and retail stores. Travel industry employment increased 23 percent overall since calendar year 1991. However, based on the information we reviewed it appears the increases in employment are becoming smaller. For example, ITRR data shows in the three years between calendar years 1994 and 1996 there were no increases in travel dependent jobs and the increase from calendar year 1996 to 1997 was 3.2 percent. Half of the increase between calendar years 1991 and 1997 occurred between 1991 and 1992. Table 10 provides information on travel industry employment between calendar years 1991 and 1997.

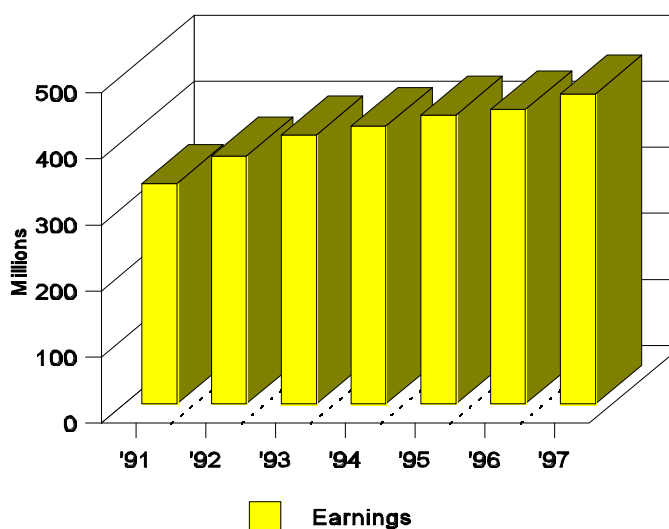


Information compiled by ITRR also indicated Montana workers earned \$429 million in calendar year 1997 from travel-related jobs. This is an increase of 42 percent between calendar years 1991 and 1997. The

## Chapter III - Montana Tourism and Travel Statistics

percentage increase in earnings between calendar years 1994 and 1997 was under 12 percent. The following table shows earnings from travel-related jobs between calendar years 1991 and 1997.

**Table 11**  
**Earnings from Travel-Related Jobs**  
(Calendar Years 1991 - 1997)



**Source:** Compiled by the Legislative Audit Division from ITRR data.

ITRR studies indicate while jobs related to tourism have increased, these jobs are generally less than full-time or lower paying on average than jobs in other industries. Another study completed by the Liz Claiborne and Art Ortenberg Foundation in calendar year 1998 called Montana: People and the Economy cited similar trends with tourism. According to this study, although tourism is often cited as one of the most important sectors of Montana's economy, it constituted six percent of total employment in 1996. This compares to 15 percent for government, 5 percent for agriculture, 6 percent for construction, 1 percent for mining and 5 percent for timber/manufacturing. This study also indicated tourism jobs are generally low paying, seasonal, and part-time.



# Chapter IV - Bed Tax Collections and Distributions

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## Introduction

The first part of the bed tax process is the collection and distribution of the tax. One of our audit objectives was to evaluate the Department of Revenue's (DOR) process to collect bed taxes from lodging facilities and disburse these funds to qualifying entities. We identified several issues and noted some areas where the collections and distributions processes could be improved.

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## Database Comparisons Raise Questions About Collections

In 1997, ITRR attempted to conduct a study to determine the proportion of bed taxes paid by residents and nonresidents. ITRR officials indicated they had difficulty getting this information because not all types of facilities were represented and because of concerns over release of proprietary information. In addition, ITRR officials indicated they were unable to come to any type of comprehensive conclusion about resident/nonresident usage based on room rate charges because hotels and motels have large variances in room charges for the same room. For example, motels have a standard price for a room, but offer various discounts for members of certain organizations such as AARP, AAA, or government agencies.

ITRR did, however, collect direct lodging information from nonresident travelers who were visiting Montana and projected this information to all nonresident visitations. In order to help evaluate DOR bed tax collections, we compared this ITRR information to DOR information on total bed tax collections for residents and nonresidents for calendar years 1993 through 1997. As noted in the following chart, total bed tax collections (residents and nonresidents) by the department were similar to what only nonresidents were projected to have paid for the same time period.

## Chapter IV - Bed Tax Collections and Distributions

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**Table 12**  
**Comparison of DOR Bed Tax Collections**  
**to Nonresident Bed Tax Payments**

(Calendar Years 1993 through 1997)

<u>Calendar Year</u>	<u>Total DOR Collections (Residents &amp; Nonresidents)</u>	<u>Estimated Non- Resident Bed Tax Payments*</u>
1993	\$ 8,562,713	\$ 8,092,308
1994	8,277,246	8,576,923
1995	9,033,781	8,934,615
1996	9,203,808	9,119,231
1997	<u>9,912,673</u>	<u>9,534,615</u>
Totals	\$44,990,221	\$44,257,692

\* Estimated from ITRR projections of nonresident lodging expenditures

**Source: Compiled by the Legislative Audit Division from DOR records and ITRR studies.**

As shown in Table 12, either the department is not collecting all the bed taxes possible, or there are data completeness questions regarding the ITRR information or there is some combination of both. We attempted to determine whether other states measure lodging facility usage by residents and nonresidents in order to gain some sense of the potential implications of information noted in Table 12. We found information related to the percentage of resident and nonresident travelers using lodging facilities is limited. In 1997, the state of Arizona contracted with a private firm to survey travelers using lodging facilities. They found approximately 30 percent of those surveyed were Arizona residents.

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### **Several Lodging Facilities Not Registered With the DOR**

Using various data at their disposal, officials from DOR, Travel Montana, and ITRR have acknowledged DOR may not be collecting all bed taxes. To further examine the reasonableness of DOR bed tax collections, we evaluated information related to the number of facilities required to remit the tax. In order for the department to track and monitor bed tax collections it requires lodging facilities to register with the department. The department maintains information for over 1,600 registered facilities on a department database. To help verify if facilities

## Chapter IV - Bed Tax Collections and Distributions

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are registered, DOR personnel compare information from a department database to health license information from the Department of Public Health and Human Services (DPHHS). In addition, the DOR has requested Travel Montana only list in its travel planner those facilities that are required to have a registration number.

We compared information from DOR's database with information from DPHHS and Travel Montana for Missoula and Yellowstone counties. We chose these counties because they were large, urban counties located in the western and eastern portions of the state. Our findings suggest there may be a number of lodging facilities not registered with the DOR and subsequently not collecting or submitting bed tax funds to the department. In the two counties reviewed, our comparison with DPHHS information found 42 lodging facilities that have current health licenses but not registered with the DOR. Half of these had never been registered with DOR and the remaining had been registered but their accounts were canceled.

The other control used to ensure facilities register with the department is the Travel Montana travel planner which is supposed to only include registered facilities. We identified 45 facilities in Travel Montana's travel planner who were not registered with the DOR. These facilities included hotels, motels, condominiums, RV parks, and outfitters and guides. The majority of these facilities had never been registered with the department.

### **What is the Potential Effect of Facilities Not Being Registered With DOR?**

The following table describes data related to hotel/motel facilities which have health licenses but are not registered with the department in Missoula and Yellowstone counties. Information provided includes the number of facilities not registered in each county, total number of rooms at those facilities, the average cost to rent a room and potential bed taxes due from the facilities.

## Chapter IV - Bed Tax Collections and Distributions

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**Table 13**  
**Unregistered Hotel/Motel Facilities in**  
**Missoula and Yellowstone Counties**  
(Calendar Year 1998)

	<u>Missoula County</u>	<u>Yellowstone County</u>
Number of Facilities not Registered	14	8
Total Number of Rooms	309	189
Average Number of rooms	22	24
Average Room Cost	\$53.89*	\$53.89*
Average Occupancy Percentage	58.80%*	58.80%*
Tax Rate	4%	4%
Potential Tax Due	\$142,954	\$87,438

\* Statewide averages

**Source:**      **Compiled by the Legislative Audit Division from DPHHS records and data from STR.**

We estimated potential bed taxes that should have been paid during calendar year 1998 from hotels and motels not registered with the DOR in Missoula and Yellowstone counties. Information needed to complete this estimate was not available from the department; therefore, we used information from DPHHS and Smith Travel Research (STR). Health license reports from DPHHS indicate the number of rooms at each facility. STR is a national research organization that compiles data related to the lodging industry for all 50 states. Information compiled by STR includes average room cost and average occupancy rates for Montana lodging establishments. According to STR officials, data is compiled only for facilities such as hotels, motels, and bed and breakfast establishments. They do not compile data for private campgrounds, RV parks, or outfitters and guides. Since we were unable to obtain data related to these types of facilities we did not include them in our estimate.

Using the data from Table 13, we estimate slightly more than \$230,000 in bed taxes may not have been paid in these two counties during calendar year 1998 by hotels and motels not registered with the DOR. This includes just under \$143,000 in Missoula county and slightly more

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## Chapter IV - Bed Tax Collections and Distributions

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than \$87,000 in Yellowstone county. At the completion of fieldwork, we provided our audit information to DOR officials who initiated further investigation of the findings.

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### Why Are There Differences?

To determine the reasons for the database differences, we interviewed DOR personnel and reviewed files for lodging facilities. We determined there were three reasons for the differences:

Limited comparison of databases by DOR personnel due to the time-consuming nature of the comparisons.

Lodging facilities are not required to submit documentation showing reasons for cancellation of their registration. Over 20 of the identified facilities listed as being active by DPHHS were shown as canceled in the DOR database. We noted documentation did not exist for 17 of these facilities. In addition, DOR does not consistently document in its files the reasons for cancellations.

DOR issues one registration number to owners of multiple facilities despite ARM regulations that require one number for each facility. For example, we identified facilities registered under one number although they were located in different cities.

The differences we identified with bed tax collections most likely result from one or more of the following areas:

- Lodging facilities are not accurately reporting bed taxes they collected.
- Nonresident impact on lodging revenue is grossly overstated.
- The amount of bed tax paid by resident travelers is not compiled.

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### DOR Needs to Improve Controls Over Bed Tax Collections

The DOR needs to improve its control environment over the bed tax collection process. For example, DOR personnel indicated one reason they do not perform more frequent comparisons of registered facilities with DPHHS and Travel Montana information is due to the time-consuming nature of the process. However, the department could request information on computer disk to allow them to perform an electronic comparison of the data instead of performing the comparison manually. Other reasonableness tests could include comparison with magazine and newspaper advertising and the yellow pages of the phone

## Chapter IV - Bed Tax Collections and Distributions

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books. In addition, the department should require individual lodging facilities be registered with the department and provide information explaining why they want to cancel their accounts.

### **Recommendation #1**

**We recommend the Department of Revenue improve its bed tax collection procedures and controls. Improvements made should include:**

- A. Establishing a process which includes reasonableness testing of DOR database information.**
- B. Documenting in DOR files reasons why facility registrations are canceled.**
- C. Ensuring individual lodging facilities have a separate registration number.**

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### **Facilities Must Submit Quarterly Tax Information**

Lodging facilities are required to collect bed taxes for all accommodation charges and remit the tax and appropriate information to the department on a quarterly basis. The department requires facilities to submit tax returns that provide numerical information on:

- Gross Receipts - Gross receipts are all receipts lodging facilities collect during the quarter for accommodation charges. They include both cash and credit receipts.
- Non-Taxable Receipts - Non-taxable receipts are accommodation charges collected during the quarter that are exempt from the bed tax. For example, rooms rented for 30 consecutive days or charges billed directly to the federal government are exempt charges. Non-taxable receipts are deducted from gross receipts and lower the amount of bed tax paid.
- Adjustments - Adjustments are corrections for errors made for bed tax payments from previous quarters. For example, if an overpayment of \$100 was made during a quarter a facility may reduce its payment by \$100 the next quarter.
- Tax Due - The tax payment required after calculating gross receipts, non-taxable receipts, and adjustments.

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### **Department Unable to Verify Information Submitted by Facilities**

Department officials indicated they cannot verify the accuracy of tax returns submitted by lodging facilities because facility owners are not required to submit documentation with their returns. We reviewed a judgmental sample of tax returns for 31 lodging facilities from Missoula and Yellowstone counties for the third quarter of calendar year 1998 and noted inconsistencies with non-taxable receipts reported on tax returns. We found some facilities did not report any non-taxable receipts and others reported several thousand dollars. One facility in our sample reported over \$135,000 in non-taxable receipts which reduced its taxable charges by 40 percent. Reporting non-taxable receipts does not necessarily mean problems exist with returns submitted by lodging facilities. However, because lodging facilities are not required to submit documentation with their returns, DOR has only limited ability to evaluate non-taxable receipts. The controls currently in place to ensure the full collection of bed taxes do not appear sufficient.

### **Audits of Lodging Facilities is Not a Primary Priority**

Department officials indicated it is not realistic to require lodging facilities to provide documentation related to all non-taxable receipts because of the amount of paperwork that would need to be submitted by facilities and reviewed by department staff. Therefore, department officials indicated the most effective process to ensure lodging facilities are accurately reporting information is to periodically audit facilities. However, for fiscal years 1994-95 through 1996-97, the DOR only completed eight audits of lodging facilities. These audits resulted in approximately \$241,000 in additional bed tax collections which is an average of over \$30,000 per audit.

DOR officials indicated audits of lodging facilities are not a primary priority for the department. Department officials said audits of lodging facilities are generally only done if concerns exist with another type of tax.

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### Management Information Needs to be Improved

The department compiles some management information related to the bed tax such as total tax collections and how much money should be distributed. However, we found the department is not compiling sufficient information to determine if facilities are reporting the correct amount of tax or to help identify potential problems or patterns with collections. Consequently, the department cannot effectively determine which facilities should be given a higher priority for audit. The department could develop various types of management information to help them more effectively administer bed tax collections. The following provides some examples of information the department could develop to improve its bed tax collections process.

- The department compiles information related to delinquent accounts which identifies the name of the facility and the quarter for which taxes have not been paid. A report providing this information is usually generated once a year. At this time a letter is sent to the applicable facility requesting payment of late taxes and assessed penalties. Department officials said they do not formally track this information to determine if certain facilities are consistently late with tax payments. Since the bed tax is paid quarterly the department could generate this information on a quarterly basis. This would provide more current information on delinquent accounts, allow them to send delinquency letters to facilities in a more timely manner, and help identify facilities who are consistently late or not filing bed taxes.
- Presently, the DOR does not know how many rooms lodging facilities have nor do they utilize applicable DPHHS room data in their audit effort. The department could compile and review data regarding the size of facilities (number of rooms) and the area of the state in which facilities are located. This data would provide the department with the ability to compare similar sized facilities to determine if gross receipts and non-taxable receipts are reasonable.
- The department could develop information by type of facility. For example, the department would be able to determine if more problems exist with larger types of facilities such as hotels or motels or smaller facilities such as bed and breakfast establishments or RV parks.
- The department could establish tolerance levels or benchmarks for gross receipts and acceptable levels of non-taxable receipts. At this time, the department does not know or establish what are



## Chapter IV - Bed Tax Collections and Distributions

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acceptable levels of gross proceeds or non-taxable receipts.

Developing these benchmarks would provide the department with data to help evaluate whether gross receipts and non-taxable receipts for individual facilities appear reasonable. According to DOR personnel, similar information has been established for other types of taxes such as unemployment insurance and income taxes.

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### Department Uses Limited Resources for Bed Tax Collections

One of the underlying causes for the control weaknesses identified could be the level of resources committed by the department to the bed tax program. Currently, DOR has one audit technician assigned to administer the bed tax. However, based on our discussions with department personnel and a review of the position description, the technician is also assigned responsibilities for cigarette and tobacco taxes, and withholding and old fund liability taxes. Department officials estimate only 70 to 75 percent of the audit technician's time is spent on bed tax. There was no supporting documentation available to assess this estimation.

DOR's mission statement indicates one of the department's major objectives is to ensure full and fair compliance with all tax laws and to maximize the mechanisms for the collection of revenues. In fiscal year 1997-98, department funding to administer the bed tax was approximately \$104,000 with 71 percent of its expenditures being for personal services. When we discussed the use of DOR administrative resources with Travel Montana officials, they indicated they would support an effort to increase collection of bed taxes by DOR. When this type of support is combined with the statutory flexibility to use resources to maximize collections, it would appear DOR could increase bed tax collection efforts.

DOR made a decision to place a lower priority on bed tax compliance activities due to its responsibility to collect other taxes and the overall amount of the tax to be collected. Fiscal year 1997-98 bed tax collections were approximately \$10 million compared to other taxes such as withholding for which collections were over \$338 million in FY 1997-98.

## Chapter IV - Bed Tax Collections and Distributions

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DOR's level of resources utilized for assuring facility compliance with bed tax requirements may be affecting the other agencies that use bed tax funds. Specifically, this means the tourism activities of the Department of Commerce, Department of Fish, Wildlife and Parks, the Montana Historical Society and the 15 tourism entities could be increased if DOR collects more of the bed taxes due. We believe the DOR needs to evaluate the resources it currently has allocated to collect bed taxes and better equate those resources with both the statutory language associated with bed tax collections and the support of Travel Montana officials who want to assure increased compliance by the lodging facilities.

### **Recommendation #2**

**We recommend the Department of Revenue:**

- A. Improve and use management information to help direct audit resources to the highest risk facilities.**
- B. Formally analyze the resources needed to administer bed tax collections and disbursements.**

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### **Distribution of Bed Tax Funds**

Section 15-65-121, MCA, gives the Department of Revenue the responsibility for disbursing funds to those entities statutorily appropriated bed tax funds. The department developed a computer program to automatically calculate the amount of bed tax funds each entity receives. The system calculates distributions based on amounts collected and the percentages entities are appropriated in state law. For example, the Department of Fish, Wildlife, and Parks (DFWP) receives 6.5 percent of bed tax collections. When the department receives a \$1,000 bed tax payment the system automatically calculates DFWP's share as \$65.00 and the DOR transfers this amount to DFWP.

## Chapter IV - Bed Tax Collections and Distributions

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### **DOR Reports Could Be More Useful**

State law charges the Department of Commerce (DOC) with distributing bed tax funds to tourism regions and qualifying cities. The distribution amounts are dependent on the amount of bed tax collected in a particular region or city. By rule, the DOR is to provide Travel Montana with quarterly reports showing the amount of bed taxes collected in cities, counties, and the tourism regions. Travel Montana uses these reports to redistribute bed tax funds to the tourism regions and cities. We found DOR's reports regarding funds available for distribution to the regions and cities could be more useful and accurate.

We reviewed distributions made to tourism regions and cities between fiscal years 1992-93 and 1997-98. We found approximately \$177,000 that should have been transferred to the tourism regions and cities was not distributed by Travel Montana.

The department currently uses a percentage method for calculating their administrative and state employee travel reimbursement costs and not fixed dollar amounts. According to DOR officials, a three percent estimate was developed using historical data for these costs. However, because this estimate was developed several years ago it now overestimates these costs because the level of bed tax collections has risen significantly. We also noted the DOR adjusts bed tax payments for the quarter a payment was for instead of the quarter the payment was received. For example, if a payment received during the fourth quarter was for the first quarter, the department records the payment in the first quarter on reports provided to Travel Montana instead of the fourth quarter. However, reports have already been provided to Travel Montana and distributions have been made to the regions and cities. Consequently, the adjusted amounts do not get distributed by Travel Montana so these funds are not available to the regions and cities for promotional purposes.

## **Chapter IV - Bed Tax Collections and Distributions**

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### **Cost Calculations Need to be Reviewed**

The DOR has not recently reviewed the process it uses to develop information provided to Travel Montana. According to Travel Montana officials, they do not have access to any other information that spells out collections and distributions for each region and city that receives a portion of bed tax funds. They indicated DOR's reports are the only source for this information. The system DOR uses to develop information provided to Travel Montana regarding bed tax collections and disbursements needs to be examined. Since this process affects both the Department of Revenue and Travel Montana, both agencies should be involved in reviewing this process.

#### **Recommendation #3**

**We recommend the Department of Revenue and Travel Montana:**

- A. Determine the percentage of the \$177,000 in bed tax funds due to the regions and cities and Travel Montana distribute these funds to them.**
- B. Jointly examine how the DOR can improve information provided to Travel Montana regarding bed tax collections and distributions.**

# Chapter V - Travel Montana Operations

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## **Introduction**

The role of management entails directing the use of resources in the most efficient and effective manner to fulfill the statutory purposes of a program. A comprehensive management system provides a control structure which helps ensure programs fulfill responsibilities as outlined in law and state policy.

During our audit, we reviewed Travel Montana operations. Areas reviewed included the development and use of goals and objectives for Travel Montana's programs, related outcome measurements, performance appraisals, and policies and procedures. We also reviewed Travel Montana's management of its financial resources.

## **Does Travel Montana Have Measurable Objectives to Determine the Success of Its Programs?**

State law delegates responsibility for promoting Montana as a tourist destination and a location for filming motion pictures and television commercials to the Department of Commerce. Travel Montana articulates this responsibility in its mission statement. Travel Montana does this through a variety of promotional activities such as advertising on television and in magazines, Internet marketing, and attending tourism related conventions.

We reviewed goals, objectives and performance measurements for Travel Montana programs and related promotional activities to determine if it developed a control structure which assesses how Travel Montana fulfills its statutory mission. Our review showed many of Travel Montana's programs and promotional components have goals, objectives, and performance measurements which help ensure Travel Montana is meeting its mission. These include the Consumer Advertising Program, the Electronic Marketing and Information Services Program and the Film Office. The following example describes how the Film Office Program's goals, specific objectives and related performance measurements demonstrate progress regarding attaining program goals.

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### **Film Office Has Specific Measurable Objectives**

The goals of the Film Office are to bring production of films, videos, and commercial and still photography shoots to Montana, to provide services to companies filming in Montana and to increase the money brought into the state as a result of using Montana as a location.

One of the objectives the office developed to attain these goals was increased use of Montanans on production company crews. The Film Office includes complete and up-dated listings of qualified Montanans for hire in their production guide. After production is completed, the office surveys the companies to determine the number of local technicians, actors, laborers, and extras hired by the production company. They also request information about wages paid to local hires. The Film Office uses the surveys to measure program effectiveness in increasing the use of Montanans in production company crews. During the summer of 1998, the office determined 90 percent of commercials filmed used Montanans on their crews. Using the information generated by the surveys, the office is able to demonstrate program success in increasing the money brought into the state as a result of using Montana as a filming location for commercials.

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### **Some Programs Have Not Developed Objectives and Related Outcome Measurements**

Audit work identified differences in Travel Montana's development of specific and measurable objectives outlining how some of its programs and related components will accomplish their goals. We found the Operations Program, the Publicity Program and the Group and Overseas Travel Program do not have specific and measurable objectives for some promotional activities. Without specific objectives for all programs Travel Montana cannot fully evaluate its success towards attaining program goals. In fiscal year 1997-98, Travel Montana spent approximately \$1.4 million of bed tax funds in programs where outcome measurements could be improved. One example is illustrated in the following section.

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### **Group and Overseas Travel Program**

The Group and Overseas Travel Program markets Montana as a tour destination for tour operators and international travelers. One of the program goals is increasing nonresident travel into the state. However, the program does not have specific, measurable objectives defined to meet this goal.

The division spent over \$818,000 during the last three years on promotional events which it cannot demonstrate increased nonresident travel to the state. For example, program staff annually attend a number of conventions around the country and make trips to several locations overseas to market Montana as a travel destination. At one convention the program hosts a dinner for tour operators. The program has hosted this dinner at this convention for several years. Dinners cost an average of \$18,000 each year for the last three years. However, program staff stated over 50 percent of the tour operators attending the convention already include Montana as a travel destination. Currently, program staff have no program objective or formal mechanism to determine if tour operators change or add Montana tours as a result of this dinner.

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### **Existing Program Measurements Do Not Conclusively Demonstrate Program Success**

Group and Overseas Travel Program staff have identified some measurement mechanisms which they believe measure program success. One measurement mechanism tracks the number of tours **offered** to nonresident travelers by tour operators. However, the actual number of tours coming into the state is not determined nor is the number of travelers within each tour. While program staff have identified additional tours offered in a given year, they have no information indicating whether these tours actually came to the state, the number of increased tourists, if any, or if the additional tours resulted specifically from program efforts.

Program staff also review permits issued by the Department of Transportation to determine the number of motor coach tours traveling in and through Montana. However, these permits are not exclusive to motor coaches nor are they required if a motor coach is registered through the International Registration Plan. Consequently, there is no direct tie between the number of permits issued and Group and Overseas Travel Program activities.

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Staff use studies completed by ITRR showing increased numbers of nonresident travelers to Montana as measurements of program performance. The studies, however, do not necessarily demonstrate the number of nonresident travelers are increasing because of program efforts. Because the outcome measurements used do not directly relate to specific and measurable objectives, the Group and Overseas Travel Program is unable to specifically demonstrate success in meeting its goal of increasing nonresident tourism.

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### Summary

Ensuring all Travel Montana programs and related promotional components have goals, objectives and outcome measurements would improve the effectiveness of its operations. It could also improve the division's ability to demonstrate its effects on strengthening Montana's economy through the promotion of the state as a vacation destination and film location.

Travel Montana has established effective goals, objectives, and outcome measurements for some of its programs but not for others. To develop a comprehensive process to measure the outcome for all its programs, Travel Montana needs to expand development of specific and measurable objectives to all programs. These programs include the Operations Program, the Publicity Program, and the Group and Overseas Travel Program. Additionally, Travel Montana should also ensure a system of related outcome measurements are used to evaluate the success of its programs.

#### **Recommendation #4**

**We recommend Travel Montana ensure all programs develop:**

- A. Specific and measurable objectives outlining how the programs will accomplish their goals.**
- B. Meaningful outcome measurements to monitor program success in meeting goals and objectives.**



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### **Several Components Needed for Effective Management Control**

Travel Montana funding is statutorily appropriated. The process of independent review and approval of the appropriations and related expenditures of bed tax funds by the legislature is limited, with the bulk of the oversight function left up to the agency.

The Montana State Constitution and Title 17, MCA, address legal requirements related to fiscal control and accountability for state agencies. State agencies use financial management control structures to help ensure efficient and effective financial management of resources.

There are a number of components for an effective financial management control structure. These include:

- Developing program budgets within the funding level for the division.
- Monitoring expenditures to ensure they are within budgeted amounts.
- Ensuring division staff comply with state laws.
- Properly recording expenditures and revenues on the state's accounting records to accurately reflect the use of financial resources.

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### **Management Services Division Delegates Responsibilities for Financial Resource Controls**

The Department of Commerce charges its Management Services Division with ensuring controls over financial resources are in place. Management Services delegates many of these responsibilities to staff within the department's programs. These responsibilities include recording financial information, developing program budgets, and appropriately contracting for goods and services. Travel Montana staff are responsible for ensuring bed tax funds are used effectively. During our audit, we noted Travel Montana has an effective system in place for developing program budgets and monitoring expenditures to ensure they are within budgeted amounts.

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### **Financial Controls Could Be Improved**

We identified a number of areas where improvements could be made in how Travel Montana manages its funds. To address this, the Department of Commerce may need to increase its internal review and oversight of financial resources at Travel Montana. The following sections discuss our concerns.

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### **Contracting Procedures Can Be Improved**

Travel Montana contracts for a large amount of program services including advertising, printing, call center operations and Superhost program services. State purchasing procedures require competition in the procurement process while protecting the interests of state agencies, the public, and the vendors. We reviewed Travel Montana's procedures for obtaining goods and services via contracts to determine if procedures comply with state purchasing laws and policies. We found the division does not always enter into contracts as required.

We noted Travel Montana obtained video productions and mailing services from several companies without negotiating a contract. Payments for the services exceeded \$144,000. Division staff indicated they were aware they did not contract for these services. They did not follow procedures such as requesting competitive bids or negotiating a contract after a successful vendor was selected because they believed they selected the appropriate vendor and were getting the best price for the services. However, by not following state procedures, Travel Montana does not provide other contractors an opportunity to provide the services nor do they guarantee they are getting the lowest price for the services.

Contracts define responsibilities and expectations of both parties. Travel Montana had a previous negative experience with not having a contract in place when obtaining services. Travel Montana paid a company to store its inventory of publications. Procurement policies were not followed and Travel Montana did not have a contract with the company providing these services. When issues arose with the company's performance, Travel Montana staff had limited recourse because they did not have a contract defining the company's responsibilities. Based on this experience, they subsequently entered into a contract and found performance improved. Travel Montana could

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experience similar problems with the services discussed above without a contract defining each parties' obligations.

According to department Management Services Division staff, they monitor and review existing contracts for Travel Montana. However, they do not review other services to determine if contracts are necessary. Travel Montana program managers are responsible for ensuring contracts are negotiated for services they obtain for their programs.

### **Recommendation #5**

**We recommend Travel Montana staff :**

- A. Develop procedures to ensure they follow state procurement policies when obtaining services.**
- B. Utilize contracts in those instances where required.**

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### **Unrecorded Revenues and Expenditures**

State policy requires agencies to record reimbursements received from outside parties if they are providing services on a regular basis. The purpose of this policy is to ensure agencies accurately report their financial activities.

During our review of financial activity, we found Travel Montana staff reduced expenditures by the amount of revenue received from outside parties instead of recording the funds received as revenue. Projects generating reimbursements included cooperative advertising, the Governor's Conference on Tourism and postage for the call center. During the last three fiscal years, Travel Montana reduced or abated more than \$190,000 of expenditures in these areas and did not record revenues for the same amount.

The state policy outlining these requirements was issued in October 1993. While we determined Management Services Division staff were aware of the requirements, we found Operations Program staff at Travel Montana were not aware of the policy.

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### **Recommendation #6**

**We recommend Management Services Division staff educate Travel Montana staff on financial policies and procedures applicable to their division.**

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### **Bed Tax Funds Incorrectly Withheld From Tourism Regions**

Part of Travel Montana's statutory responsibility is to make distributions of bed tax funds to tourism regions based on bed tax collections in the region. We reviewed Travel Montana's process to make these distributions. We found in fiscal year 1993-94 Travel Montana staff began withholding five percent of each region's distribution. According to staff, these funds are withheld as part of a solution to address concerns that three of the regions were/are not able to effectively advertise their tourist attractions with the small amount of bed tax funds distributed to them.

Travel Montana matches the amount of funds withheld from the regions with its own bed tax funds. The funds withheld from both the regions and Travel Montana are then redistributed to regions with smaller levels of bed tax revenues. The redistribution of funds is called the "five percent solution". The change in fund distribution was approved by the Tourism Advisory Council (TAC) with the full knowledge of the Department Director and the regions. The board of directors for each region passed a resolution agreeing to the five percent solution.

Since the five percent solution was implemented in fiscal year 1993-94 more than \$341,000 has been withheld from the regions and redistributed. However, the law does not grant the TAC, Travel Montana, or the regions the authority to change the distribution formula. The following table illustrates the amount of bed tax funds withheld and redistributed each year since the five percent solution was implemented.

**Table 14**  
**Five Percent Solution Redistribution Amounts**  
(Fiscal Years 1993-94 through 1997-98)

Fiscal Year	Total Withheld from Regions
1993-94	\$ 57,993
1994-95	\$ 66,735
1995-96	\$ 72,083
1996-97	\$ 67,654
1997-98	\$ 76,978
Total	\$341,443

**Source: Compiled by the Legislative Audit Division  
from Travel Montana records.**

Travel Montana withholds funds during one year for redistribution in the following year. In fiscal year 1997-98, we found Travel Montana staff redistributed \$135,308 in bed tax funds. Funds withheld in fiscal year 1996-97 were matched by Travel Montana bed tax funds and redistributed. As a result of the five percent solution, Gold West Country received \$23,706, Missouri River Country received \$74,097, and the remaining \$37,505 went to Russell Country.

At least two alternatives exist to address concerns with distribution of regional funding. First, the TAC has statutory authority to modify the regional boundaries. Regions could be developed with more equalized funding. This information could be obtained from the records maintained by the Department of Revenue. DOR tracks bed tax collection amounts by city and county.

As another alternative, Travel Montana, the TAC and the tourism regions can seek legislation to amend the current distribution formula or obtain authority to use flexibility in making regional distributions. In

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any case, bed tax funds should be distributed to the tourism regions in accordance with state law.

### **Recommendation #7**

**We recommend Travel Montana:**

- A. Distribute bed tax funds to the tourism regions according to the formula outlined in statute, and if necessary,**
- B. Seek legislation to change the distribution formula to the regions; or,**
- C. Request the TAC modify the tourism region boundaries.**

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### **Travel Montana Funds the International Trade Office**

Section 15-65-121, MCA, states bed tax funds are to be used for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials. We determined \$200,000 of Travel Montana funds are used to fund the International Trade Office (ITO) at the Department of Commerce. The funding helps support Montana's trade offices in the Pacific Rim. The mission of the International Trade Office is to identify opportunities for trade including export sales, international tourism and investment. We found Travel Montana funded about 55 percent of the International Trade Offices expenditures in fiscal years 1996-97 and 1997-98.

To address how this expenditure of funds relates to the statutory use of the bed tax, we reviewed the information provided by ITO regarding its program activities. Based on this review, the program has not made tourism promotion its priority although the majority of its funding comes from bed taxes which must statutorily be used for tourism promotion. We found tourism promotion activities were a small percentage of total activities completed by the trade offices. For example, in fiscal year 1996-97 it appears only 10 percent of the program's activities were related to tourism promotion even though bed tax funds provided over half of the program funding.

The effect of this diversion of bed tax funds to ITO is other Travel Montana programs may not be fully funded. For example, in fiscal year

## **Chapter V - Travel Montana Operations**

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1997-98, Travel Montana decreased funding to TIIP and CTAP grants by \$178,000. The funds used by ITO could have been used by Travel Montana to more fully fund the grant programs which are used for tourism related activities. We noted Travel Montana received 24 applications for TIIP grants in fiscal year 1997-98. The total amount of grant funds requested was \$1,199,836. Travel Montana awarded three TIIP grants for a total of \$150,000. We also noted only one CTAP grant for \$20,000 was awarded in fiscal year 1997-98 instead of three grants as was done in past years.

### **Recommendation #8**

**We recommend the Department of Commerce seek alternative funding for the International Trade Offices.**





# Chapter VI - Tourism Research

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## **Introduction**

Section 15-65-121, MCA, provides for two-and-a-half percent of bed tax collections to be allocated to the university system to maintain a travel research program. The Institute for Tourism and Recreation Research (ITRR) at the University of Montana has conducted tourism research since the inception of the bed tax and has completed a variety of research projects. For example, each year they compile data regarding the economic impacts of nonresident travel in the state including: estimates of the number of travelers visiting the state, the reasons they came, and the amount spent while in the state. The purpose of ITRR's university travel research program is to provide Montana's tourism industry with data to make informed decisions about planning, development, management, marketing and the economic impact of tourism.

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## **TAC Approves Tourism Research**

Section 2-15-1816, MCA, requires the Tourism Advisory Council (TAC) to direct the university system regarding research activities and approve all travel research projects prior to being undertaken. Ideas for research projects are generated from several sources such as state and federal agencies, local entities, tourism regions, and the private sector. The TAC has established a research subcommittee that reviews projects submitted by these entities. This list of projects is presented to the research subcommittee which prioritizes the ones to complete during the year. The subcommittee then recommends to the full TAC the projects they want approved. After approval, ITRR is responsible for completing the project.

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## **Role of Tourism Research Function Not Clear**

During the audit, we noted the role of the tourism research program could be better defined. We noted philosophical differences between ITRR officials and TAC members regarding the university tourism research program. These differences are in the areas of research timing, methodologies employed, and subject matter. Specifically, ITRR officials believe the entities which use bed tax funds are unclear on what kinds of information research should provide. They indicated ITRR's role should generally relate to giving an overall perspective of Montana tourism. We interviewed members of the TAC and found not all members agree on what the overall role of tourism research should be. However, most believe the major focus of research should be geared

## Chapter VI - Tourism Research

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more towards providing timely information on advertising effectiveness and marketing direction rather than concentrating on the overall impact of tourism. ITRR officials indicated the timing of some advertising information requests and the need to ensure reliability and validity in research studies have made it difficult for ITRR to respond to some requests, such as advertising conversion studies. Therefore, there have been instances where these projects have been done by private research firms. For example, Travel Montana has had several conversion studies completed by private firms to evaluate the effectiveness of its advertising activities.

The philosophical differences between ITRR and the TAC have contributed to a lack of effectiveness in the process to prioritize tourism research projects requested by various entities. Consequently, some TAC members said this has caused difficulty in getting projects approved by the full council. They also believe this has caused a level of dissatisfaction by the TAC, ITRR, and other entities with the scope and/or timeliness of some projects completed by ITRR.

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### **Specific Guidelines for Tourism Research Do Not Exist**

Officials from ITRR and the TAC agreed there are no specific guidelines for tourism research. They said this has created a subjective system to prioritize research projects. Without specific guidelines related to research, the TAC cannot effectively direct tourism research activities. The State of Montana's 1998-2002 strategic plan identifies areas where tourism research should concentrate and the TAC said they use this plan to help direct research projects. ITRR officials indicated it is difficult to determine what the specific requirements of the plan entail because the areas described in the plan are broadly defined. The strategic plan also suggests a long-range research agenda be established. Additionally, ITRR staff indicated formal guidelines would help direct the activities of the tourism research program.

The ITRR is facilitating a steering committee which was created to help define specific guidelines for the research program. The goal is to develop guidelines that can be used by the TAC and ITRR to direct and prioritize tourism research activities. The steering committee is comprised of members of the tourism industry including Travel Montana, tourism regions and the TAC. However, ITRR officials said

the steering committee only meets once each year for a day-and-a-half. The first meeting was held in June 1998 and the second meeting was held in April 1999.

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### **Communication and Coordination Needs to be Improved**

As noted earlier, there has been no generally accepted role established between the TAC and ITRR for the university travel research program since the inception of the bed tax. Statutes related to tourism research may have created conflicting responsibilities between the TAC and ITRR and clouded the role each entity plays in the research process. For example, state law requires the TAC to direct and approve ITRR's research projects funded by the bed tax. However, it is ITRR's responsibility to manage the bed tax funds appropriated for travel research.

We noted there is a lack of comprehensive communication and coordination between the TAC and ITRR to address this issue. Although a TAC research subcommittee exists and a steering committee has been created to discuss this issue, it does not appear either can sufficiently address the philosophical differences between the TAC and ITRR regarding the role of the research program. In order for the steering committee to effectively develop a long-range research agenda and guidelines and the TAC's tourism research committee to effectively prioritize projects, the TAC and ITRR should establish an agreed upon role for ITRR's tourism research program and should then establish guidelines to select research projects.

#### **Recommendation #9**

**We recommend the TAC and ITRR:**

- A. Establish a mutually agreed upon role and scope for the travel research program.**
- B. Establish guidelines for the selection of research projects which address the strategic plan.**



# Chapter VII - Should Bed Tax Funds Be Statutorily Appropriated?

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## Introduction

One method the legislature uses to control expenditures by state agencies is the appropriation process. The legislature approves most agency appropriations in the General Appropriations Act. Statutorily appropriated funds and associated program expenditures, as defined by section 17-7-502, MCA, are not included for deliberation by the legislature during consideration of this bill. Bed tax funds are defined as statutory appropriations under this law and are essentially exempt from review when the General Appropriations Act is considered.

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## State Law Requires Reviews of Statutory Appropriations

Section 17-1-501, MCA, states:

“the legislature finds that provisions for dedicating state revenue and statutorily appropriating funds have increased in number, reduce legislative control over state spending, complicate the state funding structure, and increase the effort required to budget, appropriate, and monitor public funds. The dedication and statutory appropriation of funds result in the inability of the legislature to practically and systematically conduct reasoned prioritization of programs or funds.” [1999 Legislature amended some of the language of this statute, effective October 1999]

To address its concerns, the legislature put a number of requirements into law to ensure controls are in place over statutory funding. These controls include review of statutory appropriations by the Office of Budget and Program Planning, the Legislative Finance Committee, and the Legislative Audit Division.

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## Guidelines Exist for Statutory Appropriations

In 1997, laws relating to statutory appropriations were amended to include specific guidelines. The guidelines state statutory appropriations are appropriate if:

- the fund or use requires an appropriation;
- the money is not from a continuing, reliable, and estimable source;
- the use of the appropriation or the expenditure occurrence is not predictable and reliable;
- the authority does not exist elsewhere;

## **Chapter VII - Should Bed Tax Funds Be Statutorily Appropriated?**

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- an alternative appropriation method is not available, practical, or effective;
- other than for emergency purposes, appropriations are not from the state general fund;
- the money is dedicated for a specific use; and,
- the legislature wishes the activity to be funded on a continual basis.

The guidelines also state when feasible, an expenditure cap and sunset date should be included in the legislation defining the appropriation.

During audits, the Legislative Audit Division is required by law to review statutory appropriations and report instances in which they do not appear consistent with the guidelines. Based on our review we determined the statutory appropriation of bed tax funds does not appear consistent with several of the above guidelines. The following sections discuss our determinations.

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### **Bed Tax Revenues Are Continuing, Reliable, and Estimable**

One guideline indicates statutorily appropriated funds should not come from a continuing, reliable, and estimable revenue source. A continuing and reliable source of revenue is defined in law as a revenue source for which an agency can estimate collections based upon historical data and prepare a budget for expenditures commensurate with the level of collections. We reviewed the procedures followed by the Department of Commerce for budgeting bed tax collections. Our review found Travel Montana is able to annually estimate both the total amount of bed tax collections and the funds they will be receiving in the following year. They also prepare program budgets based on the forecasted level of bed tax collections. Based on our review of bed tax collections, the revenues generated from bed taxes are continuing, reliable, and estimable.

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### **Use of Bed Tax Funds Is Predictable and Reliable**

The guidelines state the use of the appropriation or the expenditure occurrence should not be predictable and reliable. As required by law, bed taxes are used to promote Montana as a tourist destination and location for film and television commercials, maintain state parks, install or maintain historic roadside signs and sites, and maintain a travel research program. Since state law defines the uses and percentage of appropriation, we believe bed tax funds do not meet this guideline.

## **Chapter VII - Should Bed Tax Funds Be Statutorily Appropriated?**

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### **Alternative Appropriation Method Exists**

Another guideline for statutory appropriations indicates alternative appropriation methods for the revenues should not be available. We found an alternative appropriation method for allocating bed tax funds is available through the General Appropriations Act. One of the agencies receiving bed tax funds already follows this process. The Department of Revenue's costs for collecting and disbursing the bed tax are funded from tax proceeds. To obtain this funding, the Department of Revenue, by statute, receives an appropriation in the General Appropriations Act. A similar process could be used for other entities receiving bed tax funds.

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### **Bed Tax Futures Task Force Recommended Eliminating Tax if Statutory Appropriation Changed**

State law requires the Legislative Finance Committee (LFC) to review each statutory appropriation and eliminate statutory appropriations that no longer fulfill a legislative need. In its March 1998 report to the committee, the Legislative Fiscal Analyst said the LFC should consider eliminating the statutory appropriation of bed tax funds. The report indicated the statutory appropriation could be eliminated without affecting the programs receiving these funds. One of the reasons for this recommendation was that revenue and expenditures could be estimated so the statutory appropriation could be replaced by an appropriation in the General Appropriations Act. The committee delayed consideration of the statutory appropriation of bed tax funds until the Bed Tax Futures Task Force completed its review of the bed tax in September 1998. The LFC was informed of the draft findings at that time. The task force issued its report to the governor in November 1998 recommending elimination of the tax if statutory appropriation of bed tax funds was changed. The 1999 Legislature did not change the use of bed tax funds as a statutory appropriation.

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### **Statutory Appropriations Cannot Fund Administrative Costs**

In a related issue, section 17-1-508(4), MCA, indicates a statutory appropriation from a continuing and reliable source of revenue may not be used to fund administrative costs. The law defines administrative costs as: personal services; operating expenses such as travel, supplies, and communication costs; and, capital expenses such as equipment. According to Office of Budget and Program Planning personnel, the administrative costs currently paid from the bed tax statutory appropriation should be appropriated in the General Appropriations Act.

## Chapter VII - Should Bed Tax Funds Be Statutorily Appropriated?

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During our review of Travel Montana operations, we developed a three year comparison of expenditures. Using the above definition, administrative expenditures for Travel Montana were approximately \$6.2 million, \$6.3 million and \$7 million respectively for fiscal years 1995-96, 1996-97 and 1997-98. Table 15 shows Travel Montana's expenditures for personal services, operating expenses, and capital expenditures for these three fiscal years.

**Table 15**  
**Travel Montana Administrative Costs**  
(Fiscal Years 1995-96 through 1997-98)

	1995-96	1996-97	1997-98
<b>Personal Services</b>	\$ 725,659	\$ 819,707	\$ 875,866
<b>Operating Expenses</b>	5,452,710	5,382,462	6,105,158
<b>Equipment &amp; Intangible Assets</b>	56,296	112,835	26,787

**Source:** Compiled by the Legislative Audit Division from SBAS

It should be noted, \$4,543,885, \$4,543,502 and \$5,119,348 of the operating expenses are costs for postage, publications, national advertising and contracted services for fiscal years 1995-96, 1996-97 and 1997-98, respectively. These costs are specific to Travel Montana's activities of promoting the state as required by section 15-65-121, MCA. However, under the current definition of administrative costs they are also operating expenses.

The law establishing the bed tax was created in 1987 when the use of statutory funding was more common. The statutory funding mechanism also allowed for protection of funding allocations in future legislative sessions. However, as a result of law changes regarding the use of statutory funding for administrative costs and the statutory guidelines noted above, there appears to be an inconsistency in legislative intent. It is unclear if the law defining Travel Montana's statutory mission or the law defining the uses of statutory appropriations has precedence.



## **Chapter VII - Should Bed Tax Funds Be Statutorily Appropriated?**

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### **Summary**

The legislature established guidelines for statutory appropriations to ensure controls were in place over this type of funding. Our review suggests the statutory appropriation of bed taxes does not meet three of the nine guidelines outlined in law for these appropriations.

Now that the Bed Tax Futures Task Force has issued its recommendations to the Governor, the legislature should examine the necessity for, and implications of, continued statutory appropriation of bed taxes.

We also found inconsistencies between section 17-1-508(4), MCA, which states a statutory appropriation from a continuing and reliable source of revenue may not be used to fund administrative costs, and section 15-65-121, MCA, directing the Department of Commerce to promote the state as a tourist destination. Since questions exist on whether statutory appropriations can be used to fund administrative costs, the legislature should review the law to determine what activities should be funded through statutory appropriations.

### **Recommendation #10**

**We recommend the 2001 Legislature consider:**

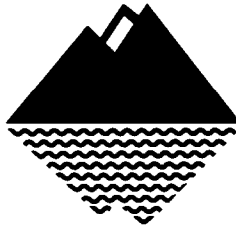
- A. If bed tax funds should continue to be statutorily appropriated.**
- B. The requirements of statutory appropriation laws as they relate to bed tax funds and clarify whether recipients may use bed tax funds to pay administrative costs.**



## **Department Responses**

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Director's Office  
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Montana Department of  
**REVENUE**

P. O. Box 5805  
Helena, Montana 59604-5805

June 3, 1999

Scott Seacat, Legislative Auditor  
Legislative Audit Division  
Room 135, State Capitol  
PO Box 201705  
Helena, MT 59620-1705

JUN - 3 1999

Re: Performance Audit of Lodging Facility Use Tax

Dear Mr. Seacat:

Thank you for the opportunity to provide the Department of Revenue's response to the audit recommendations contained in your report. During the audit period the department was, and is, in a state of transformation. We completed the consolidation of the Unemployment Insurance tax and Withholding tax programs. This effort required cross-training of department personnel, including those utilized for Lodging Facility Use Tax (bed tax) activities. As our transformation activities continue, we appreciate your recommendations to improve our tax administration processes.

**Recommendation #1**

**We recommend the Department of Revenue improve its bed tax collection procedures and controls. Improvements made should include:**

**A. Establishing a process which includes reasonableness testing of DOR database information.**

**Concur:** With the filling of a vacant position, the department has begun reviewing other sources of information to verify that required facilities are registered and filing with the department. This process includes reviewing and working with DPHHS and Travel Montana information and staff. The review and use of this information will be an ongoing process. The use of this data will aid in verifying the reasonableness of the department's database information and the total bed tax collected.

**B. Documenting in DOR files reasons why facility registrations are canceled.**

**Concur:** The department agrees it is important to ensure facilities subject to the bed tax should be registered with the department, and improvements could be made to the process used to both register and cancel facilities. The implementation of the

department's integrated management information system - POINTS, should improve the process significantly. Through POINTS case management tools, we believe sufficient documentation can be included on that system to track registration and cancellation.

**C. Ensuring individual lodging facilities have a separate registration number.**

**Concur:** The department agrees each facility or facilities in the same area under the same ownership should have a unique registration number. The current distribution process requires unique registration numbers for tax disbursements and the department will continue to register facilities using unique registration numbers.

**Recommendation #2**

**We recommend the Department of Revenue:**

**A. Improve and use management information to help direct audit resources to the highest risk facilities; and,**

**Concur:** The department agrees with the recommendation. As indicated in the audit report, "one of the department's major objectives is to ensure full and fair compliance with all tax laws and to maximize the mechanisms for the collection of revenues." The department uses its resources as efficiently as possible by developing audit strategies for all the taxes it administers. The audit strategies should include provisions that assess those taxpayers that show the highest risk of noncompliance. With the development of computer programs (POINTS) and dedication of FTE to the bed tax the department will have more resources to assess and develop audit strategies which will aid in ensuring compliance and collection of the bed tax.

**B. Formally analyze the resources needed to administer bed tax collections and disbursements.**

**Concur:** The department recently completed formal analysis of its resource requirements. We continue to review and analyze all of our resources through our reorganization efforts. A part of the review considered the number of staff required to conduct compliance work, including compliance activities related to the bed tax.

**Recommendation #3**

**We recommend the Department of Revenue and Travel Montana:**

**A. Determine the percentage of the \$177,000 in bed tax funds due to the regions and cities and Travel Montana distribute these funds to them.**

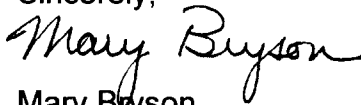
**Concur:** The department agrees that the \$177,000 in bed tax should be appropriately disbursed. The department believes that the \$177,000 is included in the disbursement calculations provided currently to Travel Montana. We will work with Travel Montana to resolve any discrepancies or clarification of the information we provide to them.

**B. Jointly examine how the DOR can improve information provided to Travel Montana regarding bed tax collections and distributions.**

**Concur:** The department would be happy to meet with Travel Montana or any other organization involved with the lodging facility use tax to improve the information we provide.

Thank you for your courtesy and for the professional work of the staff involved in the audit. If you have any questions or need clarification of any of the above items, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Mary Bryson".

Mary Bryson  
Director



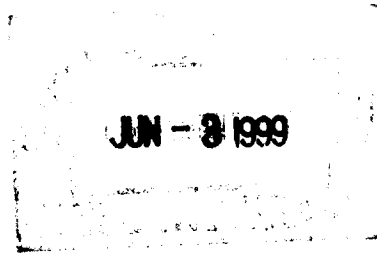




# MONTANA DEPARTMENT OF COMMERCE

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June 3, 1999

Mr. Scott Seacat  
Legislative Auditor  
PO Box 201705  
Helena MT 59620-1705

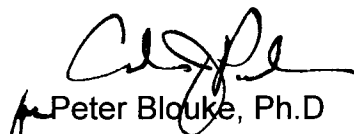
Dear Mr. Seacat:

Attached you will find the response of the Department of Commerce to the performance audit performed by your office on Travel Montana.

We appreciate you and the other members of the staff for the time you spent at the department. I have always found your staff to be professional and their comments and suggestions helpful.

Please don't hesitate to call if you have questions concerning our response. I can be reached at extension 3797 or Matthew Cohn, can be reached at 444-2654. We welcome your comments or suggestions.

Sincerely,

  
Peter Blouke, Ph.D  
Director

**Department of Commerce Response to Lodging Facility Use  
Tax Audit**

***Recommendation #3***

***We recommend the Department of Revenue and Travel  
Montana:***

***A: Determine the percentage of the \$176,786 in bed tax funds  
due to the regions and cities and Travel Montana distribute  
these funds to them.***

***B: Jointly examine how the DOR can improve information  
provided to Travel Montana regarding bed tax collections  
and distributions.***

**Response**

**A. We concur.**

The funds are currently in an account reserved for use by the regions/CVBs. Once we are instructed as to the distribution due, disbursements will be made.

**B. We concur.**

We will be happy to meet with DOR officials at their earliest convenience and report the outcome to the committee.

***Recommendation #4***

***We recommend Travel Montana ensure all programs develop:***

***A. Specific and measurable objectives outlining how the  
programs will accomplish their goals.***

***B. Meaningful outcome measurements to monitor program  
success in meeting goals and objectives.***

**Response**

**A. We concur.**

All Travel Montana programs should have specific and measurable objectives. We believe that most of these are already in place but need to be improved to be more easily understood and quantified. As part of our development of our annual marketing plan, we will develop new ways to measure outcome.

**B. We concur.**

We intend to develop outcome measurements for these programs and present them to the Tourism Advisory Council for their input. With their concurrence, we will adopt these measurement criteria and integrate them into our program. We will also be happy to share the results in future years with the committee.

***Recommendation #5***

***We recommend Travel Montana staff:***

***A. Develop procedures to ensure they follow state procurement policies when obtaining services.***

***B. Utilize contracts in those instances where required.***

**Response**

**A. We concur.**

Management will ensure that program managers will comply with all requirements set forth by the Department of Administration and the Department of Commerce Management Services Division. Follow up training will be held with existing staff on all procedures. We will also ensure that new employees receive proper instruction on state procurement policies.

**B. We concur.**

Management will seek clarification from the Department of Commerce Management Services Division on contract requirements, and follow the procedures as required.

***Recommendation #6***

***We recommend Management Services Division staff educate Travel Montana staff on financial policies and procedures applicable to their division:***

**Response**

**We concur.**

Appropriate training will be scheduled with Management Services Division staff to avoid confusion or misinterpretation in this area.

***Recommendation #7***

***We recommend Travel Montana:***

- A. *Distribute bed tax funds to the tourism regions according to the formula outlined in statute, and if necessary,***
- B. *Seek legislation to change the distribution formula to the regions; or,***
- C. *Request the TAC modify the tourism region boundaries.***

**Response**

**A. We concur.**

Discussions have already been held with the tourism regions, and plans are in place to modify the distribution as required.

**B. We partially concur.**

If necessary, legislation should be introduced to change the distribution formula. However, we need to research the potential options available and seek the input of the TAC and the legislature as to how to proceed before making any specific recommendation.

**C. We concur.**

The TAC has looked at the tourism regional boundaries in detail in 1993 and 1998. A number of alternatives have been studied and considered. We are willing to ask the TAC to consider adjustments to the boundaries. Again, we need to look at all the potential options available before making any recommendation as to how to proceed.

***Recommendation #8***

***We recommend the Department of Commerce seek alternative funding for the International Trade Offices.***

**A. We concur.**

The Department will be seeking alternative funding from the 57<sup>th</sup> legislature

May 30, 1999  
Mr. Joe F. Murray  
Senior Performance Auditor  
Office of the Legislative Auditor  
State Capitol  
Helena, MT 59620

JUN - 1 1999

Dear Joe:

Thank you for the opportunity to respond to the final report on the Lodging Facility Use Tax (LFUT). In general, the Tourism Advisory Council agrees with the audit findings and recommendations regarding the ITRR and the use of the LFUT to fund the research being done there. Through refinement of the process, the implementation of guidelines, and ongoing communication between the TAC, ITRR, Travel Montana, the visitor industry, and other pertinent state agency representatives, coupled with modifications that address the philosophical differences outlined in the Auditor's report, we believe that the problems can be solved.

The following is our response to your specific recommendations:

Recommendation #9

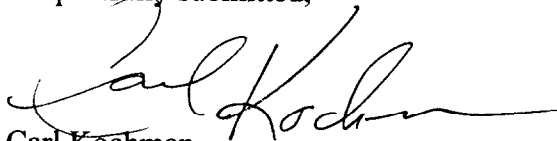
We recommend the TAC and ITRR:

- A. Establish a mutually agreed upon role and scope for the travel research program.
- B. Establish guidelines for the selection of research projects which address the strategic plan.

We Concur with both parts of the recommendation. The TAC has already initiated and conducted meetings with those U of M officials who supervise the ITRR. In addition, the TAC will discuss the ITRR guidelines, role and scope at its general session on June 7<sup>th</sup>, 1999. Also, a follow-up meeting has been set between the ITRR, Travel Montana, The Department of Commerce, the University of Montana Administration, and representatives of the TAC on June 24<sup>th</sup>, 1999. These discussions will provide the basis for the development and implementation of a much more defined ITRR role.

Thank you for the opportunity to respond. We may contact you if further questions arise regarding the recommendations. If you have any questions about the TAC's comments, please do not hesitate to contact me.

Respectfully submitted,



Carl Kochman  
Chair, Tourism Advisory Council  
P.O. Box 1947  
Great Falls, MT 59403



# The University of **Montana**

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of Montana  
Dillon*

*Helena College of  
Technology  
of  
The University  
of Montana  
Helena*

3 June, 1999

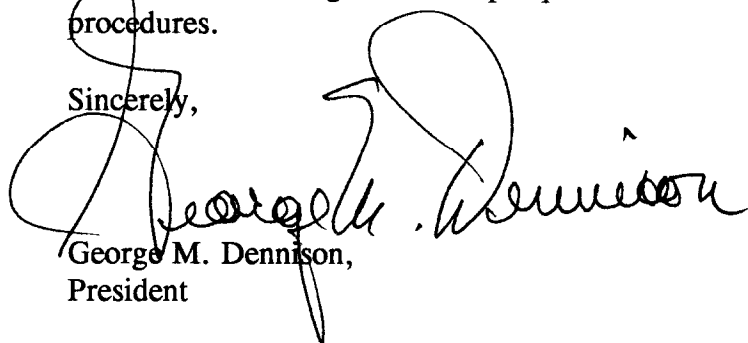
Mr. Scott A. Seacat  
Legislative Auditor  
Legislative Audit Division  
Room 135 State Capitol  
P. O. Box 201705  
Helena, MT 59620-1705

Dear Mr. Seacat:

I enclose The University of Montana Institute for Tourism and Recreation Research's response to Legislative Audit Division Performance Audit of Lodging Facility Use Tax Report. We concur with the one recommendation made to the University and will address the issue as outlined in our response.

We appreciate the cooperative efforts made by the audit team and thank those involved for their assistance. I believe this process will be beneficial for the efficient and cohesive operation of Tourism Research Program at The University of Montana. We also gain a fresh perspective from these audits of our processes and procedures.

Sincerely,



George M. Dennison,  
President

Enclosure

c: P. Brown, Dean, School of Forestry  
K. Burgmeier, Director, Internal Audit  
T. L. Chesnut, Vice President for Research and Development  
R. Crofts, Commissioner of Higher Education  
N. Nickerson, Director, Institute for Tourism and Recreation Research

**The University of Montana**  
**Institute for Tourism and Recreation Research**  
**Response to Lodging Facility Use Tax Audit**  
June 3, 1999

**RECOMMENDATION #9**

**WE RECOMMEND THE TAC AND ITRR:**

**A. ESTABLISH A MUTUALLY AGREED UPON ROLE AND SCOPE FOR THE TRAVEL RESEARCH PROGRAM.**

**ITRR concurs with the recommendation.** ITRR has followed the role intended by the legislature when the bed tax was implemented. The philosophy behind travel research conducted by ITRR for the University Travel Research Program was formed during the enactment of the bed tax law. ITRR follows the guidelines suggested in 1987: 1) assess the economic impact of tourism, 2) identify tourist preferences for recreational developments and facilities, 3) identify new markets and effectiveness of alternative marketing strategies, 4) assess how to increase recreational opportunities while ensuring maintenance of the resource values which attract tourists.

At the June 1999 TAC meeting, ITRR will present the recommendations developed by the TAC steering committee and the ITRR research guidelines as outlined above to the TAC research committee. These recommendations will be utilized as a starting point for the TAC research committee to outline the role and scope of University Travel Research Program projects. During the next year, University and ITRR personnel will work with the TAC research committee to develop a written role and scope document. This document will be completed by the February 2000 TAC meeting for full TAC approval.

**B. ESTABLISH GUIDELINES FOR THE SELECTION OF RESEARCH PROJECTS WHICH ADDRESS THE STRATEGIC PLAN.**

**ITRR concurs with the recommendation.** Upon approval of the University Travel Research role and scope at the February 2000 TAC, the research committee and ITRR will design guidelines for project selection. The full TAC will approve these guidelines at the June 2000 meeting.